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JPRS-EEI-84-020

14 February 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

14 February 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

CEMA SAID TO BALANCE PAYMENTS THROUGH LOWER INVESTMENTS, LIVING STANDARDS

Zuerich NEUE ZUERCHER ZEITUNG in German 12 Jan 84 p 13

[Unsigned article: "CEMA Efforts in Managing the Debt Crisis"]

[Text] The European CEMA nations, with the exception of Poland, have been able to achieve, within a relatively short time, current account surplusses in hard currencies by drastically cutting back on their investments and imports and by lowering their living standards. By so doing, they succeeded in getting a handle on the debt crisis. However, in the long run, these severe austerity policies will undermine Soviet Bloc competitiveness in world markets. In addition, Western banks continue to be very reluctant to extend loans to CEMA.

The six small CEMA countries, in particular, made a spectacular adjustment: While registering a \$ 4 billion current account deficit in hard currencies in 1981, they achieved, in 1982, a \$ 500 million surplus which continued to grow last year (see box). In 1983, only Poland, the CEMA country with the highest debts, showed a current account deficit.

### Problems not yet Entirely Resolved

The lower current-account deficits of the communist countries were accomplished by a drastic reduction of imports and investments. Private consumption of the population, on the other hand, was cut to a much lesser extent in order to avoid unrest. The planned economies could be restructured by way of positive, but much lower growth rates. Only the Polish economy underwent a sharp contraction. Hence, it can be said that, so far, the CEMA countries have been able to deal with the debt crisis in a much more effective way than the Latin American nations--not only because of the greater flexibility of "command" economies, but also because of CEMA's different historical background.

Nonetheless, the communists have not yet solved all their problems because the severe cutbacks in investments and imports have slowed down the process of modernization. Hence, CEMA's future competitiveness will continue to deteriorate. Also, the improved current account is merely the result of cuts in imports, not of increased exports. The economic dynamism of the East will remain low. The planned economies will be displaced from their traditional OECD markets by Third

World countries which have been successful in many production sectors because of their ability, in many instances, to lure foreign capital to their country and to use it for the manufacture of the most advanced products.

And yet the developing countries are an important source of foreign exchange earnings for the CEMA countries although CEMA's trade with the Third World declined not only in 1982, but also in 1983, as preliminary data indicate. The CEMA countries have slashed their imports from the developing world much more than their exports which resulted in an even larger current account surplus. The decline in South-East trade is due to the decreasing competitiveness of CEMA products, lower earnings of the OPEC countries which are among the East Bloc's most important customers, reduced imports by developing countries and lower Soviet grain purchases last year.

CEMA Country Current Accounts  
in Hard Currency  
(in \$ mill.)

	<u>1981</u>	<u>1982</u>	<u>1983<sup>1</sup></u>
Bulgaria	200	300	300
Czechoslovakia	- 50	200	300
GDR	- 100	1500	1600
Poland	-2700	-1800	-1400
Rumania	- 700	600	500
Hungary	- 650	300	200
Small CEMA Countr.	-4000	500	1500
USSR	3100	6400	7000
CEMA (Europe)	- 900	6900	8500

1/ Preliminary Data      2/ Estimates

It is entirely possible that the developing countries will benefit a great deal more from the expected cyclical upswing in the western world than the CEMA nations because of their lack of competitive industrial products. As for CEMA imports from the West, only the USSR is expected to increase their purchases slightly this year, particularly for energy projects. The small CEMA countries, on the other hand, will have to continue cutting back on their imports if they want to maintain their current account surplus, because their foreign exchange situation is tight and the costs of debt servicing are high. Since the USSR has already raised to world market levels the energy prices it charged the small CEMA countries, the East Europeans will have to continue to struggle with enormous economic problems. Whether this will lead to increased pressure for economic reform, remains to be seen.

#### Lower Debts

The CEMA countries have been able to cut their large foreign debt burden drastically. In 1981, their debts, which were in excess of \$77 billion, reached their all-time high; they declined in 1982 and apparently will do so again in 1983. They should now total less than \$ 70 billion. However, the responsibility for this development lies not only with the CEMA countries themselves but also with the sharp increase

in the dollar value. A large share of CEMA's debts are expressed in West European currencies; hence, whenever the value of the dollar goes up, their debts decline automatically. But the lower debts are also the result of drastic cuts by Western banks in their loans to Eastern Europe because they consider the entire region as too much of a risk.

U.S. banks, in particular, have begun to retreat from Eastern Europe since they already have enough worries in Latin America and it is hard for them to obtain official loan guarantees, except for Hungary. But trade with the East is much less important for U.S. business than for the West Europeans who continue to extend credits to Eastern Europe, although to a lesser degree.

The high international interest rates are particularly hard on the CEMA countries. In addition, Western banking circles continue in many instances to view the situation in East Europe with a lot of skepticism. They are worried that the situation in the Soviet Bloc might deteriorate for economic or political reasons. Especially the continuing tense relationship between East and West has a negative impact on their assessment of the CEMA markets.

Yet, compared to Eastern Europe's exports, the debt situation is really not that catastrophic (see box). Only Poland reached the level of Brazil's debts, i.e., the country with the highest debt burden in the world. In many countries, the situation is similar to that of South Korea whose creditworthiness has remained intact. However, the statistics indicate that CEMA must not be viewed as one bloc, and that each country must be judged separately because of the large differences among the individual member countries of the "Red economic community."

Relationship between CEMA Debts and  
Exports to Hard Currency Countries

	1981	1982
Bulgaria	0,9	0,6
Czechoslov.	1,0	0,8
GDR	1,7	1,6
Poland	4,6	4,6
Rumania	1,3	1,6
Hungary	1,9	1,4
USSR	0,6	0,4
Brazil	3,3	4,5
South Korea	1,6	1,8

The debts of the USSR are considered to be low because of the country's enormous gold, raw materials and energy reserves. The GDR, in contrast to Romania and Poland, was able to prevent the rescheduling of her debts although her obligations totaled about \$11.5 billion at the end of 1982 (\$ 12.8 billion in 1981). In view of the high indebtedness of the GDR, Pankow must have a surplus in its current accounts in order to meet its obligations. Although the GDR depends on

continued Western loans, the country continues to limit reporting of economic data, with the result that it is very difficult to assess the actual situation with any accuracy.

Western banks give Czechoslovakia's creditworthiness a very positive rating. Her debts are low (\$ 3.2 billion in 1982). Thus, in August 1982, Prague was able to obtain a \$ 50 million loan at an interest rate only 1 1/8 percent above London's interbank rate (Libor). Although it is relatively easy for Czechoslovakia to get more loans, the country would like to achieve an even larger current account surplus in order to reduce its debts. In contrast, Poland with a debt burden in excess of \$ 23 billion (1982) is unable to service her debts. While Warsaw will have to reschedule her debts in 1984, according to Romanian sources, no further rescheduling will be needed this year. Bucharest doesn't want any new loans in 1984 either, but the West doesn't take that too seriously. Like the GDR, Bucharest is very reluctant to publish data on Romania's economic situation.

Hungary and Romania are members of the World Bank and the International Monetary Fund. The two international organizations assist these countries in dealing with their debt crises. Nevertheless, Hungary's debt mountain, at almost \$ 7 billion (1982), was much lower than that of Romania (\$ 9.5 billion). Continued liberal economic policies, publication of economic data and close contacts with Western firms have been factors contributing to a better credit rating than the average CEMA country could achieve. Hungary is the only CEMA country with adequate access to Western capital markets. But this hasn't helped Hungary yet in building up adequate foreign exchange reserves. Finally, Bulgaria has been able to cut her debts radically; while they amounted to between \$3.6 billion and \$3.7 billion in 1978 and 1979, they shrank to less than \$2 billion in 1982.

7821

CSO: 2300/230



READER CRITICIZES SHORTAGE, POOR QUALITY OF CONSUMER GOODS

Sofia RABOTNICHESKO DELO in Bulgarian 26 Dec 83 pp 1, 4

[Letter to the editors by Angel Boyadzhiev, active fighter against fascism and capitalism, in Krumovgrad: "Much Has Been Done But Much Remains To Be Done"]

[Text] [Editor's Note] The disconcerting thoughts of Comrade Angel Boyadzhiev and the acuteness with which he writes against any badly performed work have evoked a lively discussion on the pages of the newspaper about quality. The editors have received thousands of letters, many of which in one or another form have been printed.

At present, after a year, we again asked Comrade Angel Boyadzhiev to describe what in his opinion has changed in product quality and what questions are still of concern to him.

Dear Editors. Let me admit first of all that in my letter to RABOTNICHESKO DELO of 3 January 1983, my notions then of quality were extremely primitive. These had been shaped primarily by the stands and racks in the stores, by the level of goods and services in trade and by service activities. I did not suspect that the problems of quality were so complicated and all-encompassing. Their exceptionally great significance is clear from the decision to convene the National Party Conference and was convincingly argued by Comrade Todor Zhivkov at the Varna Conference. He defined quality as the main, key problem in our development.

In my view, this wise definition of quality must be the guide in the thoughts and actions of each leader and social worker, each scientist, production worker and specialist. More and more I am convinced that this must become the determining criterion of political and civil maturity, for professional-creative suitability and labor dedication for all, without any exceptions.

Over the last year, on the pages of RABOTNICHESKO DELO a true debate developed over the problems of quality. Participating in it were our prominent leaders and social figures, scientists and specialists and pacesetters in labor. The example of the party body was taken up by the remaining mass information media. Everywhere there were scientific and theoretical articles, interviews, views

and critical comments and numerous valuable proposals and recommendations were made. Positive experience was shared and essential weaknesses and shortcomings were brought out both in the organization and management of production as well as in its end realization. A number of useful meetings and discussions, questionnaires and surveys of readers were held. The mind, thoughts and conscience of the entire people were involved in this creative dialogue. This required that the party and state bodies, the leadership and the economic organizations undertake a number of specific measures and new managerial decisions on what was brought up in the newspaper.

But, comrades, in no instance can what has been achieved satisfy us. Many questions still concern me. And at present I can repeat what I wrote in my first letter: it is painful for me to look at the poorly performed work.

Recently my neighbor complained that he had bought a shovel and on the very first shovel full in the garden it bent and collapsed. It was unusable. Now he is looking for a Soviet, Romanian or Korean shovel but not a Bulgarian one. If we look at the shelves in the stores, we will see that there is a similar situation with handsaws, iron pitchforks, adzes, hoes and a number of other household and garden implements and tools. People want the imported and not the home produced because these have still not yet won the confidence of their consumers. For more than a year, I have been wanting to buy a sickle, I have looked in other cities of the country but there are none. It is even harder to find nails and shoes for draft animals. It appears that the planning bodies and producers have already decided that the private farms are to be worked only by tractors and combines. But what can be said about the farmed areas on mountain slopes?

I am writing about seemingly petty goods but these are essential to people and they must be of high quality.

Almost one-half of our population consumes beer. Our city is supplied by a bottling factory in Kurdzhali and is also delivered from the brewery in Khaskovo. But there is a great difference in the bottled beer from the two places. Our beer is not sufficiently carbonated, it has little head and a poor taste and frequently the contents is clouded by impurities, while the bottled beer in Khaskovo is very good.

What can we say about the quality of cheese, particularly sheep cheese! There is an established standard and production method, the same price but the quality differs. It is either dry or crumbly, or soft, with poor taste qualities. And let us not speak about the extremely limited assortment on the dairy products market.

The unsatisfactory quality of the packaging is also disconcerting. In spite of repeated alerts and critical comments by citizens and the mass information media, there still has not been any change. Many goods and particularly food-stuffs such as sugar, rice, flour, crackers and so forth are packaged in weak and non-lasting materials and because of this the stores receive them in an unattractive and loose state.

I have the impression that over the year more has been written about the quality of labor in material production, in forgetting labor in management and completely in the nonmaterial sphere. But look what happens. A decision was made to build a new multi-story residential unit in our town. Six houses were condemned and these were assessed at around 90,000 leva. The owners were compensated and moved into other residences. So far, so good, everything was legal and normal although the condemned houses were large and could have been lived in for decades longer. In order to clear the area, the obshtina people's council quickly descended on the confiscated structures. In 2 or 3 days, two of the houses had disappeared. Only the tiles were taken down by hand and everything else was left to the machines. The night before someone had succeeded in breaking in and making off with the flooring from one of the houses while from the other the person responsible for state taxes under the council loaded up an entire truck with good materials for his own needs without being assessed, billed or paid for. Beams, doors, planks, windows and other good materials were stolen by other citizens while the remaining broken and unusable materials were burned on the site.

This practice exists not only in our town. I saw similar vandalism in other cities in the country and this bespeaks serious flaws in managerial and control activities, that is, the extremely low, poor quality of this work.

The quality of building materials is also alarming. Aside from being in short supply, the tiles available in the okrug are weak, perishable, with very low operating qualities. For this reason imported tiles are widely preferred. Each year in the okrug at least a thousand houses are built and the people have great trouble in finding building materials and particularly high quality tiles. I wonder why in years previous the tiles produced by our enterprises were good and standard but now are of poor quality, nondurable and also in short supply?

In May 1980, construction was started on a new hotel in Krumovgrad. But recently the project has been stopped although most of the work is complete. Only the external facing, some final work and furnishing remain. In my opinion, the idleness increases the cost of the building, destroys what has been done and worsens quality. Can this be justified by any economic or other advantage?

Comrades, as I have already said, the importance of quality is very great and crucial for any job. Let me give an example. Two years ago I visited my relatives in a village some 10 km from Lom. There I came down with double bronchial pneumonia in a very severe, critical form. I was not admitted to the thoracic department of the Lom Hospital probably in order not to enter the final "black dot" due to my severe state. I was admitted by the head of the internal department Dr Ana Kurmova and intensive treatment was commenced immediately. Three days later, the temperature broke and my case moved from hopeless to hopeful. I spent 36 days in the department and recovered fully. Dr Ana Kurmova herself was an exceptional person, a model of professional and civil dedication, concern and industriousness. How fine things would be in our daily life if we all worked like she did.

Dear comrades. I conclude my letter with a proposal: We are approaching the National Party Conference and I feel that the conversation about quality

conducted on the pages of RABOTNICHESKO DELO during the year which is nearly over must be continued. Even now it would be good if you would describe in greater detail what specifically has changed in the quality of various products. Certainly this is the task for the conference itself. I also think that we should strengthen the criticism particularly against shortcomings of a subjective nature. Write more about the quality of labor in managerial activities and generally in the nonmaterial sphere.

10272

CSO: 2200/66

SPECIAL HOSPITAL FOR FOREIGNERS EARNS GOOD REPUTATION

Sofia RABOTNICHESKO DELO in Bulgarian 26 Dec 83 p 2

[Article by Stoyanka Polonova: "Thanks Are Heard Even Without a Translator"]

[Text] We have become accustomed to understand under the concept of an institute a scientific institution where recognized minds solve complex questions in various areas of science. This is the offspring of traditional thinking and for this reason few people are aware of what precisely lies under the name "Institute for the Treatment of Foreign Citizens." In essence, it is a modern therapeutic institution where the patients are foreigners and receive highly skilled medical aid in our country. Clearly then the basic task of the collective which is employed there is to help people and to return the most precious thing to them, their lost health.

Still, in going to the institute, the visitor is not fully persuaded that it does not essentially differ from our other hospital institutions. In actuality this is not the case. From the doors drifts the aroma familiar to everyone in a hospital, people in white coats move about efficiently while others in "street clothes" or pajamas, wait in front of the offices.

In the office of the director, Professor Dr Ivanka Nikolaeva, a young attractive woman came in who spontaneously rushed up and kissed her. It was clear that she came from our neighboring country. She arrived sometime previously on a stretcher and was now ready with her baggage because she had been discharged with a medical statement of "healthy." The woman spoke in her mother tongue but even without a translator one could hear the great joy, affection and thanks....

The intense routine here is full of the struggle for health and life concealed in reports behind dry figures and facts. Here is a small portion of them: the number of patients over the 5-year existence of the institute has increased by 2.5-fold; each year 30,000-40,000 persons pass through the in-patient department and polyclinic; in the eye clinic the number of beds has increased by close to 3-fold and this is a wonderful recommendation. All of this means that the staff has much to do and enough problems to solve.

The institute has opened up several clinics where in addition to traditional treatment methods new ones are successfully being applied and which have been well mastered by Bulgarian medical practice. One of these is the lengthening

of extremities. For example, for patient P. S. from Greece his leg has been lengthened by a whole 20 cm and now he is already walking easily without assistance. Also of interest is the electric stimulation of bone growth which shortens the recovery time by 30 percent. Also widely used are artificial joints which are produced in Etropole the quality indicators of which are above the world level.

The people here certainly will never forget the 24 Libyan children who arrived severely afflicted by infantile paralysis. Even a professionally inured person could not help but be moved with pity in seeing these cruelly afflicted bodies. But after the employed treatment, mainly surgical, and using the Bulgarian drug nivalin, these children returned home cured, walking with the help of devices and aids and having maximum mobility.

The case of the 76-year-old Hawaiian V. I., who came to Europe as a tourist, also remains a fond memory. It happened that he fell sick with pneumonia. He heard of the Bulgarian hospital and headed for Sofia. He arrived at its entrance in an ambulance in an exceptionally severe state with bilateral pneumonia complicated by pulmonary emphysema and chronic cardiac insufficiency. His condition was very alarming and the 14 days spent in the intensive care unit were truly a battle for his life. The team in charge succeeded in bringing him back from death. After a time, the pneumonia responded and V. I. was able to return to the far-off Hawaiian Islands, maintaining the best feelings for Bulgaria and at present constantly writes grateful letters to the institute.

Equally dynamic was the fate of a Canadian woman whom the doctors three times were able to bring back from clinical death. Many people have recovered their sight. In the eye clinic the cornea can be successfully implanted and replaced and virtually blind people again are able to enjoy beauty, lush colors and the mysterious play of half-light....

It is impossible to describe all the cases. They run into the thousands, just as there are thousands of thanks for all the personnel. "Is there anything more precious in a person's life than being cured of his illnesses, to make friends and gain peace of mind? I was persuaded of this after my visit to the institute. I wish the physicians success in their highly humane and noble activities" (Omar Azir Aldin, a journalist from Lebanon). "Once again let me emphasize that rarely today have I met persons with such sincere conscience and good character. I thank all of you!" (Rusis Panayotis, captain of the Greek Fleet). These are only two examples of the numerous letters which are moving in their sincerity and warmth.

While I was at the institute, I happened to meet Faragel Hauaz, the leader of the medical section of the People's Bureau of the Socialist People's Libyan Arab Republic in our country. He said:

"Medical progress in Bulgaria is exceptionally highly regarded. For 5 years now, we have been maintaining close contact with the institute. I am very pleased with the warm relations and sincere concern shown here for Libyan citizens. With the greatest respect I thank this collective and its leadership. By its humane activities, it contributes to the deepening of friendship between our two peoples."

The institute has already emerged on the international scene. Over its short existence it has been able to establish authority throughout the world and to win faithful friends for our socialist motherland. But it also has another very important purpose for our public health. Using the money earned by its co-workers, it is able to purchase a portion of the necessary modern equipment and instruments for the needs of our public health. Thus, along with its patriotic activities, the collective of the institute is developing great patriotic activities in serving the health of the Bulgarian citizens.

10272

CSO: 2200/66

PRC ECONOMIC POLICIES THREATEN SOCIALIST GAINS

AU111655 Prague ZEMEDELSE NOVINY in Czech 10 Jan 84 p 2

[Josef Pesek article: "The Chinese Economic Uncertainties"]

[Text] China's economy is characterized by a number of complicated processes, the final results of which are not yet clear. Many critical phenomena in its economic and social life are far from having been overcome; and the fight in the Beijing leadership on issues of the economic policy is gradually exacerbating. In the endeavor to find its "own" model for transforming the backward society, the Chinese leadership has undertaken innumerable attempts and sudden changes in development; this has considerably harmed the interests of the working people, and also the interests of national economy.

In the opinion of one of the Chinese economists, China's socioeconomic development to date has enabled the emergence of an independent comprehensive industry and ensured the supplies of basic consumer goods to the population. But the lag behind developed countries has not been eliminated.

After Mao Zedong's death, emphatic changes took place in China; and its leadership renounced a number of Maoist concepts, above all in the sphere of economy. However, the economic difficulties have considerably surpassed the original estimates: The disproportions between various national economy branches have exacerbated and this has produced the necessity to carry out changes in the newly adopted plans for speedy modernization, to withdraw from the 10-year plan of national economy development (1976-85), and to start reorganizing the entire organizational system of the national economy.

Foreign observers are pointing out the lightness with which Beijing declares, amends, and rejects plans for the country's economic advance, with which it reviews trade and economic agreements with other states and cancels the concluded contracts and treaties. This evokes serious concern among the commercial circles of Western countries about China's reliability as a trade partner: all the more so since one has already almost lost faith in the existence of enormous reserves of Chinese crude oil.

True, the grasp of the problems of economic and social life among the Chinese leadership has improved; but it has not improved to the extent that would make it possible to formulate and define a sufficiently constructive and realistic



program of economic development. So far promises and unfounded plans prevail there, and their practical efficacy is low. Many economic branches are undergoing a stagnation and the rate of growth in basic production is dropping. Due to a lack of electric power, one-fourth of Chinese industrial facilities are not being utilized; on the contrary, the obsolete equipment leads to a highly excessive fuel and power consumption per unit of produced output.

Various nonsocialist and semisocialist forms of economic activity have also been revived and developed in the last few years. The representatives of the national bourgeoisie have been returned many of the privileges which they had lost during the cultural revolution; they were given back their real estate and their monetary deposits, and many of them are again acquiring responsible functions in state bodies and social organizations. Even though the figures on this sector of the Chinese economy are not quite precise and even though they vary, one can reasonably judge that hundreds of thousands of private entrepreneurs are already operating in the country, and that the small-scale production sector in certain spheres of the Chinese economic life, for instance in agriculture, has acquired a remarkable significance.

Whereas a multi-sectoral economy was regarded in other socialist countries as a temporary phenomenon connected with the transition from capitalism to socialism, in China we have today various economic sectors existing for an uncertain, unspecified period. All this, together with the growing participation of foreign capital and the increasing linkage between China and the system of the international capitalist division of labor, is threatening the socialist achievements.

CSO: 2400/184

COUNCIL OF MINISTERS DECREE ON PRODUCT QUALITY CONTROL

Text of Decree

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I No 37,  
28 Dec 83 pp 405-412

/"Decree on the Development and Safeguarding of the Quality of Products" signed by  
W. Stoph, chairman, GDR Council of Ministers on 1 December 83/

/Text/ The following is ordered for the general improvement and the safeguarding  
of the quality standards of all products, especially the development and production  
of top quality consonant with export requirements, the intensification of the nation-  
al economy and the needs of the public as well as with the aim of achieving an in-  
creasingly favorable cost/result ratio on the basis of the highest possible labor  
productivity and low production consumption:

Article 1

Scope

- (1) This decree regulates the development and safeguarding of the quality of industrial products and material services of an industrial kind as well as state quality control by the Standardization, Measurement and Commodity Testing Office (ASMW) and the Office for Industrial Design.
- (2) To be considered as products and services as per Paragraph 1 also are products and services of the refrigeration and storage industry, animal raw material production and the state enterprises of seed and seedling production, combines and enterprises of state-owned and cooperative trade as well as the artisan enterprises of the foodstuffs industry.
- (3) This decree applies to
  - State organs and economy managing organs,
  - Combines, enterprises, cooperatives and facilities (hereinafter designated combines and enterprises).
- (4) This decree applies to the development and safeguarding of the quality of products for the armed organs unless otherwise specified in special legal regulations.

Tasks of the Ministries and Other Central State Organs in the  
Field of Quality Development and Safeguarding

Article 2

Basic Tasks

On the basis of SED resolutions, laws and other legal regulations, ministries and other central state organs ensure the implementation of state quality policies to guarantee product quality consonant with social needs, including reliability, durability and good design. They make sure that top products are developed by the combines and enterprises in response to market requirements, and that--at the same time--faster and more extensive production efficacy significantly raises labor productivity, substantially lowers materials and energy consumption and, in general, secures a favorable cost/result ratio. The management, planning and economic stimulation of quality development must be directed toward the enforcement of a resolute orientation to faultless work in combines and enterprises.

Article 3

Ministries

- (1) It is incumbent on the ministries to accept responsibility for the implementation of state quality policies in the combines and enterprises in their sphere of competence.
- (2) For the implementation of central state tasks and plan targets, and in close cooperation with the Standardization, Measurement and Commodity Testing Office and the Office for Industrial Design, ministries must assign key points for product concrete quality development to the combines, with the aim of more emphatically determining the product assortment by new products responding to the requirements of foreign markets, the national economy and the public. Realization of these key points is to be ensured by the plans science and technology.
- (3) Product related quality development must be directed mainly to the
  - Improvement of performance qualities--especially reliability and durability--of the products, including design quality consonant with market requirements and the expectations of future users, coupled with declining costs,
  - Lowering of materials and energy consumption in the development, manufacture and use of the products, with particular reference to the improvement of the mass/performance ratio, the greatest possible and nationally advantageous refinement of the raw materials to be used,
  - Improvement of the technological standard in combines and enterprises and the development, production and use of the respective efficient measuring and testing equipment.

(4) Ministers safeguard the application of efficient quality safeguarding systems in the combines within their sphere. They check the efficacy of quality safeguarding systems in the combines, especially with regard to the development of top performances for increasing the proportion of industrial goods production carrying the "Q" quality mark, the foreign trade efficacy achieved as well as the results accomplished in the enforcement of faultless work. Care must be taken to ensure that the measures necessary for improving the efficacy of safeguarding quality are annually fixed in combine quality programs.

(5) Based on combine quality analyses and the efficacy of the technical control organization demonstrated thereby, ministers insist on performance comparisons and exchanges of experience with the managers of the technical control organizations at the various combines and on those managers' continued further education.

(6) The tasks as per Paragraphs 1-5 apply mutatis mutandi to district councils with regard to the combines and enterprises in their sphere of responsibility.

#### Article 4

##### Standardization, Measurement and Commodity Testing Office, Office for Industrial Design

(1) The ASMW and the Office for Industrial Design are responsible for the implementation of the tasks assigned by the Council of Ministers relative to the management and planning of quality development and safeguarding. They carry out these assignments in close cooperation with the ministries, other central state organs and combines. They implement their state assignment on the basis of skilled analysis and control operations, especially by

- Drafting central norming points for the improvement of production quality--in particular to ensure the greatest possible efficiency of products with the "Q" quality mark--in preparation of the state plan science and technology and by checking on their fulfillment as well as by influencing the respective targets and tasks of combine and enterprise plans science and technology;
- Presetting the state quality criterion for the development of top products and checks on its inclusion in the targets of the tasking workbooks in order to ensure that the scientific-technological and design aspects respond to the requirements of foreign trade, the national economy and the public and take into account the acceleration of scientific-technological advances;
- Approving the tasking workbooks for the development of new products and the processes and equipment related thereto as well as checks on the implementation of the target assignments set in the tasking workbooks to produce quality and efficiency effective results;
- Uniform management and planning of standardization efforts directed to the greatest possible social efficacy in order to improve and guarantee the quality of all products;
- Influence on the development of a rational measurement system in combines and enterprises, oriented to the greatest possible efficiency and highest quality of

social labor; presetting assignments for the development and production of needed measurement and testing equipment and its efficient use in production preparation and implementation as well as the periodical testing of the measuring devices; help for the combines as regards the uniform use and further development of testing and control methods;

- The award or denial of the "Q" quality mark or the mark "top design performance" (SL);
- The definition of the principles for the appraisal and comparison of performance qualities of industrial products, the confirmation of the methodologies drafted by the industrial ministries for the appraisal and comparison of performance qualities for entire product groups as well as the development of performance qualities of new products, consonant with the legal regulations and in coordination with the relevant central state organ;
- The classification of products as technically obsolete when they no longer respond to the quality requirements of the standards, display scientific-technological and design backwardness or declining efficiency;
- The distinction of combines and enterprises by the award of the title "combine of excellent quality work" or "enterprise of excellent quality work";
- The assignment of targets and fixing of discounts in order to enforce state quality demands, blocking the delivery of finished products in order to prevent damage to the economy.

(2) The ASMW helps the combines to draft quality analyses to arrive at greater quality demands on scientific-technological work as well as on production.

(3) The president of ASMW is authorized to suggest which general directors of combines (hereinafter designated general directors) must defend quality analyses to the ministers with the cooperation of the ASMW.

(4) The ASMW and the Office for Industrial Design are empowered to carry out checks in combines and enterprises and to collect samples and specimens. Coupled with the observance of applicable safety regulations and the regulations relating to the protection of state and service secrets, employees of the ASMW, assigned to carry out these duties, are entitled to enter enterprise premises, storages, and so on, as well as to view all enterprise documents required to enable them to carry out their work.

(5) The ASMW and the Office for Industrial Design assist combines and enterprises to ensure stable quality safeguarding consonant with national requirements and enforce faultless work, especially by the generalization and transfer of tried and tested experiences and competition methods and by effective publicity in this field.

(6) The ASMW assists and checks on the economy managing organs, combines and enterprises of state-owned and cooperative trade in key areas with respect to the drafting and enforcement of quality safeguarding measures. It carries out inspections in the trade as relating to supply efficacy, in particular delivery quality and the

performance of products as well as the standard of customer service; it also evaluates quality analyses of the domestic trade in consumer goods with regard to complaints, quality contract penalties, trade losses and stocks.

(7) Not affected by the provisions of Paragraphs 1-6 are legal regulations assigning specific duties in the field of quality control to other central state organs.

## Article 5

### State Quality Inspections by the Standardization Measurement and Commodity Testing Office

(1) ASMW state quality inspectorates are set up in all centrally managed combines of industry to check on the enforcement of state quality policies. The president of ASMW in coordination with the managers of the respective superordinated organs decides on quality inspectorates to be set up in other combines.

(2) The ASMW president appoints or dismisses the managers and personnel of state quality inspectorates in accordance with a nomenclature.

(3) It is the task of the ASMW state quality inspectorates to enforce, via the general directors, the state quality requirements involved in the management, planning and execution of scientific-technological work and production, up to and including sales, and to assist the general directors in the development and safeguarding of a high-quality standard of production. The following tasks arise therefrom for the state quality inspectorates:

- The analysis of quality development in the combine, using the monthly plan fulfillment records, and the drafting of conclusions;
- Passing on the best experiences in the development and implementation of a modern quality guarantee system, efficient technical control organizations and the use of rational testing and measuring equipment with the aim of achieving faultless production on all job places;
- Enforcement of the quality requirements by way of the tasking workbooks for the development of new products and the safeguarding of performance goals and results consonant with the requirements of foreign markets, the national economy and the public;
- Checks on the scientific-technological level of standards and the enforcement of national quality requirements in the course of drafting and revising standards;
- Checks on the efficiency of scientific-technological results, the observance of technological discipline and the standards for the safeguarding of sample-true and quality-appropriate manufacture as well as the standard of quality safeguarding for the realization of faultless work and the enforcement of 100 percent final and dispatch checks, especially in the case of export products.

(4) The managers of state quality inspectorates have the following rights relating to the accomplishments of their tasks:

- Carrying out inspections in combines and enterprises;
  - Issuing assignments to combines and enterprises for raising the qualitative standard of products and production, the efficacy of quality safeguards and for drafting and revising standards on the basis of ongoing analyses;
  - In case enterprise directors and general directors fail to meet their responsibilities, blocking the further processing of reduced quality raw materials and intermediates as well as the delivery of finished products in order to prevent damage to the national economy;
  - Instituting the necessary product tests;
  - Should serious quality problems arise, setting up temporary control groups--including personnel who are not members of the state quality inspectorate, especially purchasers of the products and managers of the combine and enterprise technical control organization (with the approval of the general director);
  - Attending general directors' management meetings and other discussions dealing with problems of quality development and safeguards.
- (5) General directors must provide the material prerequisites to ensure the state quality inspectorates' ability to function,
- (6) The provisions of Paragraphs 1-5 do not apply to the construction industry.

#### Combine and Enterprise Tasks in the Field of Quality Development and Assurance

#### Article 6

#### Basic Tasks

- (1) Combines and enterprises are responsible for the development and safeguarding of the appropriate high-quality products responding to the requirements of foreign markets, the national economy and the public, at the lowest possible social cost. General directors and enterprise directors are obligated by skilled management to implement state quality policies and the demands arising therefrom in their sphere of responsibility on the basis of the plan and to enforce quality conscious work among all managers, senior employees and for each job.
- (2) A stable system of quality safeguards must be guaranteed in each enterprise, orienting to the best possible quality of work, from research and development to the transfer to production, from receipt of goods via production to dispatch, and ensuring sample-true and contract-appropriate production.
- (3) The socialist competition is to be so organized in the enterprises as to orient the working people's creative initiatives to the highest possible quality of performance and production.

## Article 7

### Responsibility of General and Enterprise Directors

- (1) General directors are responsible for the enforcement of a long-range quality strategy in the combines, directed to the greatest possible contribution to the growth of the national capacity. They therefore institute a system of quality safeguards that guarantees the uniformity and comprehensiveness of quality growth from the first stages up to the final product and, on the basis of the plan, ensure the quality-oriented management of the entire production process in their sphere of responsibility.
- (2) General directors and enterprise directors ensure that effective politico-ideological work develops the sense of responsibility of each worker for the best possible quality and efficiency of production as well as for the observance of quality regulations in the entire enterprise production process. They will therefore resolutely encourage various initiatives in the socialist competition.
- (3) General directors ensure that the unity of quantity and quality is implemented in the enterprise performance appraisal and stimulation. Using the latest international knowledge, the quality safeguarding system must be so developed that top quality demands are realized, beginning with market research and ranging by way of research and development to the transfer of products, the receipt of goods, the preparation and implementation of production through marketing and customer service.
- (4) General and enterprise directors ensure that
  - New products with better performance features and more attractive design are developed on the basis of analyses of customer and user requirements and market trends, and that they are turned out in sufficient quantities to satisfy demand;
  - Scientific-technological tasks are assigned in the plan so as to contribute to the development of a product range corresponding, with regard to quality and design, to the future demands of foreign markets, the national economy and the public by an advanced degree of refinement;
  - In accordance with legal regulations, the national targets for the development and safeguarding of quality in their sphere of responsibility are preset in the tasking workbooks, creative performances of the research and development collectives oriented to the best possible scientific-technological results and state quality criteria enforced;
  - The necessary quality stipulations included in the standards, constantly revised, made to agree with the development requirements of the national economy and scientific-technological progress, and exactly observed;
  - Modern methods of quality safeguards used to achieve faultless work and, therefore, quality and contract-appropriate delivery of products as well as avoid complaints; in this context it is imperative extensively to apply the methods of the state quality control, especially with respect to process analyses and process supervision;



- The necessary measuring and testing equipment is created by using the construction of rationalization aids and--wherever required in terms of the national economy--computer quality controls integrated in the manufacturing process are implemented in order at decisive sections of production to realize quality controls with the greatest possible safety and reliability and at the lowest possible cost;
  - All working people are oriented to faultless quality work by the clear statement of job duties, exact task definition and the use of effective incentives;
  - The functional behavior of products and all complaints are studied, conclusions drawn therefrom for the improvement of quality and the removal of causes of errors as well as the necessary customer service--including spare part supplies--organized.
- (5) General and enterprise directors are responsible for interrupting the production of goods that fail to meet state quality regulations or are not sample-true or contract appropriate until the deficiencies have been made good. They must also promptly block the delivery of products failing to meet quality standards, unless Article 17 applies. They are obligated to inform the manager of the state quality inspectorate about the quality standard, including production interruptions and delivery bans imposed.
- (6) General directors must ensure that half-yearly quality analyses are drawn up and evaluated with the involvement of the respective labor union management. Taking into account market analyses and the experiences of the customer service, new and higher quality requirements are to be deduced for scientific-technological and design work as well as production, included and implemented in quality programs and targets for the socialist competition. These quality analyses represent a basis for performance comparisons between enterprises.
- (7) In coordination with the ministers, general directors decide on their own responsibility, numerical strength and qualitative staffing of the technical control organization. General directors must ensure that properly qualified personnel is employed in the technical control organization so as to ensure the standard and enforcement capacity of the technical control organization. They are also responsible for the constant improvement of the skills of personnel of the technical control organization and for the training and further education of the managers and staffs of the technical control organization.
- (8) General directors ensure that the necessary material and financial prerequisites are provided for the accomplishment of the tasks arising from this decree for the technical control organization, that all checks are carried out by productive test and inspection methods, and that reliability and measurement laboratories are equipped with the latest scientific-technological knowledge.
- (9) The provisions set out in Paragraphs 1-8 apply mutatis mutandi to directors of district managed combines and managers of other combines and enterprises as per Article 1 Paragraphs 2 and 3.

## Technical Control Organization at Combines and Enterprises

### Article 8

(1) Technical control organizations as control organs of the general or enterprise directors exist at combines and enterprises to influence the development and safeguarding of product quality as well as to check the respective enterprise measures. The technical control organization is directly subordinated to the general or enterprise director.

(2) The appointment or dismissal of the managers of technical control organizations at centrally managed combines of industry requires the assent of the Standardization, Measurement and Commodity Testing Office. The manager of the combine technical control organization is responsible for the technical instruction and supervision of the managers of technical control organization at the combine enterprises. The managers of technical control organizations in combines and enterprises rank with technical directors.

### Article 9

(1) For the consistent realization of quality safeguards, the technical control organization must accomplish the following tasks in particular:

- Assistance in the drafting, application and further development of highly efficient quality safeguard systems in accordance with the latest international knowledge; supervision of the observance of the prescribed responsibilities of managers, from research and development through marketing, with a view to the highest possible quality and faultless work;
- Active influence on the drafting and topicality of advanced scientific-technological, design and economic targets for the development of new, qualitatively very valuable products and highly productive technologies in the tasking workbooks;
- Supervision of the observance of preset performance targets in the crucial phases of research and development to the secure transfer of the results to production;
- Carrying out quality control in the entire reproduction process, beginning with the arrival of goods via manufacture to the final and dispatch checks; in the case of export products, it is necessary to carry out a 100 percent final and dispatch check; all products, spare parts and subassemblies must be submitted to a thorough and systematic quality check;
- Checks on the safeguarding and observance of sample-true manufacture consonant with technological, technical and design requirements;
- Evaluation of the functional behavior of the products;
- Preparation of inspection and test methods and requirements with respect to the development and production of modern test and metrology equipment in in-house construction of rationalization aids, coupled with cost reduction;

- Checks on the observance and quality level of standards, issue of proposals for revision in accordance with advanced international levels and national requirements for lowering the consumption of energy, raw materials and other materials;
- Cooperation in the drafting and use of moral and material incentives, especially the organization of quality-dependent wage and salary types;
- Cooperation in the organization of economic contracts, especially with regard to quality provisions for exports;
- Evaluation of the results of quality inspections and tests as well as complaint statistics and the costs of ANG, analysis of the reasons for mistakes and information about issues relating to quality, together with proposals for measures to be initiated;
- Preparation and evaluation of analyses regarding the status of the metrological safeguards ranging from research and development via production to marketing and assistance with raising the standard of enterprise metrology.

(2) The manager of the technical control organization checks the observance of quality instructions. In case of infringements of state quality regulations, sample-true manufacture or contract appropriate production, he must request the general or enterprise director to stop production or delivery of these products.

#### Article 10

##### Tasks of the Economy Managing Organs, Combines and Enterprises of Trade

- (1) The managers of the economy managing organs, combines and enterprises of the domestic consumer goods trade, the trade in means of production and foreign trade are responsible for ensuring that the trade entirely meets its duties relating to product quality by measures involving quality safeguards. This applies in particular to their influence on the development and manufacture of demand-appropriate products, the preservation of quality in the movement of goods as well as advice and service to the customers.
- (2) Managers as per Paragraph 1 must affect the development and manufacture of products, especially
- Cooperation in safeguarding the quality and range of products important from the aspects of supplies and trade by the drafting of requirements concerning product quality, especially the preparation of tasking workbooks, assortment conceptions and drafts of standards--on the basis of analyses of performance behavior and demand trends--;
  - Exact contractual agreements on the quality and assortment of products, the proportion of new and further developed products, safeguards with respect to the necessary components and replacement parts; packaging, warehousing and transportation;

-- The drafting of requests to the manufacturer to safeguard the appropriate customer information in terms of operation techniques.

(3) The respective managers of the domestic consumer goods trade and the trade in means of production must safeguard

-- The implementation of methods of quality preserving work in the movement of goods generally;

-- The safeguarding of the necessary goods reception, intermediate and goods dispatch checks,

-- The use of rational and standardized equipment for the movement of goods, optimum processes of looking after the goods, the necessary measuring and testing equipment and the observance of order and safety

in order to preserve the quality of products in the movement of goods and prevent trading losses.

(4) In order to constantly affect the safeguarding and preservation of the quality of consumer goods and means of production in the movement of goods and to influence production, technical control organizations or persons in charge of quality safeguards work in economy managing organs, combines and enterprises of the trade in consumer goods and means of production, who hold the status and have the rights and duties of the technical control organization as per Articles 8 and 9.

(5) The superordinated central state organs must issue branch specific regulations to Paragraphs 1-4.

## Carrying Out State Quality Control

### Article 11

#### Obligation to Register

(1) To safeguard state quality control, all industrial products must be registered with the ASMW before the start of production. Exceptions will be listed in an implementing regulation. Upon notification of the start of production, operating standards with quality criteria must be submitted for approval to the ASMW. The ASMW grants approval of operating standards with quality criteria for a limited time. In the case of changes of the confirmed quality criteria or at the end of the time limit, the ASMW must again be asked for approval.

(2) Combines and enterprises must notify the ASMW if they cease the manufacture of products subject to the obligation to register. ASMW approval is required before the production of measuring devices is stopped.

(3) Products subject to state quality control must be made available for inspection upon request by the ASMW.

## Article 12

### Products Subject to Registration of Design

(1) All the following products are subject to registration of design at the Office for Industrial Design:

- Their cultural-esthetic features are provided by design services,
- Their market efficacy and efficiency is definitely affected by design services in the course of the research and development process,
- They influence the total design standards of final products, and

are therefore set out in the tasking workbook with the target "top design performance" (SL).

(2) The manufacturer must register products subject to registration of design with the Office for Industrial Design before including the respective tasks in the plans science and technology.

## Article 13

### Quality Marks

(1) A significant saving of mass, a lowering of production expenditure and above average foreign exchange earnings must be demonstrated by comparison with the predecessor product for top products assigned the target of achieving the "Q" quality mark in the tasking workbooks. Based on the requirements of the national economy, foreign markets and the needs of the public, products with the "Q" quality mark must

- At the time of fully coming to market be superior or overall equal to internationally leading comparable products with regard to important performance features, especially the performance determining indices-- reliability, durability and design;
- Achieve the greatest possible efficacy with respect to exports and manufacture, ensure the optimum ratio of performance features per materials and cost unit, and meet the requirements of the users.

The ASMW issues the "Q" quality mark together with the test certificate only upon observance of the quality criteria and upon proof of sample-true manufacture.

(2) When the state quality criterion for top products is observed and upon application by the general director or director of a district managed combine, the "Q" quality mark may be awarded to products developed and manufactured, taking into account seasonal demand and fashionable design as well as to products of the traditional range of foods with a longer shelf life, none of which require a tasking workbook for further development.

(3) The ASMW decides the period of validity of the test certificates issued. As a rule it is 1 year. The manufacturer must file the test certificates, test samples and specimens in accordance with the regulations on record keeping and the dates stipulated by the ASMW.

#### Article 14

##### State Design Award

The Office for Industrial Design awards the title "top design performance" (SL) to products requiring registration of design if

- Their cultural-esthetic features correspond to the goals of the socialist society,
- Their design and technical quality is superior or generally equal in important parameters to internationally leading comparable products, and
- They achieve the greatest possible efficacy with respect to exports and the supply of the public as well as the optimum ratio of function and design per materials and cost unit.

#### Article 15

##### Availability of Documents, Data, Test Samples and Specimens

- (1) Combines must make available at the proper time to the ASMW and the Office for Industrial Design the documents and data required for these agencies to accomplish their tasks. The manufacturer--in the case of import products, the import enterprise--must make available promptly and without charge specimens and test samples to the ASMW and the Office for Industrial Design at the location where the tests are to be made. The specimens and test samples submitted must be representative of the products the quality of which is to be demonstrated.
- (2) Based on agreements the ASMW may have specimens and test samples tested free of charge in enterprise inspection facilities.
- (3) The ASMW and the Office for Industrial Design are entitled to collect specimens at further processing or consuming cooperation partners and in the trade, at the expense of the manufacturer or import enterprise.
- (4) The collection of specimens and test samples from deliveries to armed organs require the consent of the latter.
- (5) No claims may be made on the ASMW or the Office for Industrial Design for compensation with respect to test samples and specimens remaining with the ASMW or Office for Industrial Design, nor for damage suffered in the course of collection and removal.

## Article 16

### Duty to Inform the Standardization, Measurement and Commodity Testing Office and the Office for Industrial Design

(1) Combines and enterprises are obligated to make available to the ASMW and the Office for Industrial Design all data required for the exercise of their function as state control organs, at the same time observing the requirements of secrecy.

(2) General and enterprise directors are obligated promptly to notify the ASMW of interruptions of production or the blocking of deliveries of products and offenses against sample-true manufacture as per Article 7 Paragraph 5.

## Article 17

### Licenses by the Standardization, Measurement and Commodity Testing Office and the Office for Industrial Design

(1) The ASMW and the Office for Industrial Design may, if nationally required and upon application by the combines and enterprises, issue licenses for the

-- Continued manufacture or

-- Delivery of already manufactured goods

for products that fail to meet state quality provisions or were not manufactured true to the samples.

(2) Combines and enterprises are obligated to apply to the ASMW for permission to make delivery of goods in the testing stage with respect to products for which the observance of state quality provisions cannot yet be demonstrated but which need to be delivered. This applies in particular to

-- Products of pilot production,

-- Products, the testing of which has not yet been concluded,

-- Products manufactured to test the technological standard.

(3) Licenses as per Paragraphs 1 and 2 include permission to diverge from state standards and operating standards with quality criteria.

(4) The licenses must be limited as to time, quantity, value or order and may be linked to appropriate obligations.

(5) Licenses as per Paragraph 1 are not required if

-- In the case of export products, the divergence is due to requests from the foreign customer,

-- The divergences keep within the quantitative or time tolerances and assignments for selected assortments.

(6) Not affected thereby is the jurisdiction of other central state organs as determined in legal regulations, with respect to permits to diverge from state standards.

## Article 18

### Certification and Approval Duty

(1) In agreement with the appropriate central state organs, the ASMW may issue an order to the effect that certain products require ASMW certification for their manufacture or use and that enterprises need certification with regard to the manufacture of certain products. The conditions for certification, the procedure of certification and identification are determined by order of the ASMW president.

(2) Importation of products, the design or use of which is governed by specific technical rules--especially safety rules--in the GDR, may be made dependent on ASMW approval. The products subject to approval as well as the approval procedure and identification are determined by order of the ASMW president in coordination with the appropriate central state organs.

(3) Combines and enterprises may manufacture or use products subject to certification and enterprises subject to certification may manufacture products only if a valid ASMW certification is to hand. Combines and enterprises may import products subject to approval only after ASMW approval has been granted, unless legal regulations provide otherwise.

(4) The legal regulations in effect for other certification are not affected.

## Article 19

### Other State Quality Checks by the Standardization, Measurement and Commodity Testing Office

(1) In coordination with the appropriate central state organs, the ASMW may carry out quality checks of

-- Nationally important products not subject to the provisions of Article 18,

-- Component supplies and assembly services for investment projects,

-- Services and similar performances.

The ASMW is to be informed of the results of quality tests carried out by purchasers, their agents or other control organs.

(2) The ASMW establishes the procedure of quality checks. The provisions of Article 15 apply mutatis mutandi to the availability of test samples and specimens.



## Article 20

### Distinction of Combines and Enterprises

The ASMW may award the title "combine of distinguished quality" or "enterprise of distinguished quality" to combines and enterprises, the products and services of which consistently demonstrate a high standard of quality.

## Article 21

### Warranty

The ASMW is authorized

- To issue instructions with regard to legal warranty periods and maximum warranty periods in accordance with the provisions of the law of 25 March 1982 on the Contract System in the Socialist Economy--Contract Law--(GB1 I No 13 p 293),
- To obligate enterprises producing consumer goods to grant additional warranties as per the GDR Civil Code of 19 June 1975 (GB1 I No 27 p 465).

## Article 22

### Requirements by the Standardization, Measurement and Commodity Testing Office and the Office for Industrial Design

- (1) Combines and enterprises are obligated to meet the requirements issued by the ASMW and the Office for Industrial Design as per Article 4 Paragraph 1 and Article 5 Paragraph 4. Not limited thereby is their responsibility for the development and safeguarding of product quality.
- (2) Requirements as per Paragraph 1 may be appealed. The appeal is to be submitted in writing, stating the reasons, to the manager who issued the requirement within 4 weeks from receipt of the requirement. The appeal has no delaying effect. The appeal must be decided within 1 week of receipt. If the appeal is disallowed or not allowed in full, it must be forwarded within this period for decision by the ASMW president or manager of the Office for Industrial Design. The ASMW president or manager of the Office for Industrial Design issues a final decision within another 2 weeks. If, in exceptional circumstances, no decision can be issued within this period, an interim decision must be forthcoming at the proper time, stating the reasons for the delay and giving the likely final date.

## Article 23

### Imposition of Markdowns

- (1) The ASMW is authorized in accordance with legal regulations to provide for markdowns if enterprises fail to meet their targets for safeguarding the planned product quality, especially if
  - a) Products are not manufactured in accordance with state standards and other state quality requirements,

- b) Planned quality marks for products of current manufacture are withdrawn or not re-awarded,
- c) Following introduction of the products to be manufactured, the quality and efficiency targets stipulated for nationally important key tasks in the plan science and technology, especially the "Q" quality mark fail to be achieved,
- d) The planned volume of goods production by "Q" quality marks, quality stages and types per product, product group or assortment fails to be achieved.

The markdowns must amount to at least 10 percent of the profit planned for the product involved. Their total, however, may not exceed 10 percent of the planned enterprise net profit.

(2) If a product no longer meets the requirements on design quality, especially the requirements for the design award "SL," the Office for Industrial Design may order markdowns in cooperation with other state organs.

#### Article 24

##### Fees

Fees are charged for the work of the ASMW, consonant with the legal regulations in effect.

#### Article 25

##### Administrative Penalties

(1) Administrative penalties ranging from M10-M500 may be imposed on persons who deliberately or negligently as manager or senior employee of combines and enterprises

- a) Permit the manufacture or delivery of products counter to the provisions of Article 7 Paragraph 5,
- b) Fail to meet the requirements issued by the ASMW or the Office for Industrial Design within the framework of Article 22,
- c) Submit specimens and test samples as per Article 15 Paragraph 2, that are not representative of the products, the quality of which is to be demonstrated,
- d) Counter to the provisions of Article 18 Paragraph 3 manufacture or use products subject to certification, manufacture products as an enterprise subject to certification, or import products subject to approval,
- e) Fail to meet the duty to inform as per Article 16 Paragraph 2,
- f) Fail to register products subject to the obligation to register as per Article 11 Paragraph 1 or Article 12 or fail to make them available for testing as per Article 11 Paragraph 3,
- g) Begin production without approved standards as per Article 11 Paragraph 1.

(3) Administrative penalty proceedings are the responsibility of the ASMW president and the manager of the Office for Industrial Design.

(4) Applicable to administrative penalty proceedings and the imposition of administrative penalties is the law of 12 January 1968 on Combating Administrative Offenses --OWG--(GB1 I No 3 p 101).

#### Article 26

##### Training for the Tasks of Quality Safeguarding and Standardization

The Ministry for University and Technical School Affairs, the Ministry for Public Education and the State Secretariat for Vocational Training, in cooperation with the ASMW and other relevant state organs and combines, must ensure that issues involving the development and safeguarding of quality, standardization and metrology are routinely included in further education and training.

#### Concluding Regulations

#### Article 27

Implementing regulations will be issued by the president of the Standardization, Measurement and Commodity Testing Office and, in his jurisdiction, the manager of the Office for Industrial Design, in coordination with the managers of the appropriate central state organs.

#### Article 28

To ensure the observance of defense requirements, special regulations to the provisions of this decree must be agreed between the president of ASMW and the ministers of the armed organs.

#### Article 29

The president of the ASMW--and in his jurisdiction the manager of the Office for Industrial Design--may permit combines and enterprises to be exempted from the provisions of Articles 6-9 of this decree, if complete application is not needed for reasons for national interest.

#### Article 30

(1) This decree takes effect on 1 January 1984, with the exception of Article 25. Article 25 takes effect 1 month after publication.

(2) Losing effect at the same time is the decree of 17 April 1980 on the Development and Safeguarding of Product Quality (GB1 I No 14 p 117).

(3) Test certificates issued on the basis of the decree of 17 April 1980 on the Development and Safeguarding of Product Quality (GB1 I No 14 p 117) will remain valid after this decree takes effect, up to the date stated in the test certificates but latest up to 31 December 1984.

## First Implementing Regulation

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I No 37,  
28 Dec 83 pp 412-416

/"First Implementing Regulation to the Decree on the Development and Safeguarding of the Quality of Products - Product Registration -" signed by H. Lilie, state secretary and president, Office for Standardization, Measurements and Product Testing on 1 December 1983/

/Text/ The following is ordered on the basis of Article 27 of the Decree of 1 December 1983 on the Development and Safeguarding of Product Quality (GBI I No 37 p 405):

To Articles 11, 13, 15 and 17 of the decree:

### Article 1

(1) All industrial products with the exception of the items listed in the appendix as well as the products manufactured for the Exquisite VHB /state trade enterprise/ must be registered with the Standardization, Measurement and Commodity Testing Office (ASMW) on form ASMW 101<sup>1</sup> so as to ensure quality control before introduction or reintroduction to manufacture. Introduction to manufacture is deemed to be the start of the manufacture of the first product (in the case of one-off or small series production), the first product lot (in mass production), the first series or first charge of products (in the case of large-scale mass production), followed by industrial goods production.

(2) Registration of products with the ASMW presumes that combines and enterprises are able to prove the observance of performance parameters and normatives on technical safety, health, accident prevention and fire safety as well as environmental control, decided on the basis of legal regulations by other state organs and facilities.

(3) Combines and enterprises must register at least 6 weeks before manufacture begins. The appropriate ASMW departments decide the registration procedure for products developed and manufactured taking into account seasonal sales and fashionable design, as well as foodstuffs.

(4) The operating standard with quality criteria must be transmitted to the ASMW for approval as an appendix to the registration.

(5) Combines and enterprises must carry out registration with the ASMW on the basis of the GDR product and performance nomenclature (ELN). The ASMW's jurisdiction for product headings is announced in the "registered on ASMW jurisdiction for industrial products."<sup>2</sup>

(6) The introduction or resumption of the manufacture of industrial products by combines and enterprises may proceed if the quality criterion approved by the ASMW is observed or the quality required has been demonstrated by specimens and test

samples submitted to the ASMW. The ASMW separately regulates the requirements with regard to the availability of specimens and test samples for the purpose of demonstrating quality.

#### Article 2

(1) If quality provisions are changed, ASMW approval must be obtained using form ASMW 102.

(2) Combines and enterprises must therefore submit to the ASMW for approval the operating standard with up-to-date quality criteria at least 6 weeks before the intended change.

#### Article 3

(1) Combines and enterprises must notify the ASMW of the cessation of the manufacture of industrial products as per Article 1 Paragraph 1. Exempted are products as per Article 1 Paragraph 3. ASMW approval must be obtained before ceasing the manufacture of measuring devices.

(2) The data on the cessation of production must be handed to the ASMW on form ASMW 103.

#### Article 4

(1) With respect to products for which, with ASMW approval, the achievement of the "Q" quality mark has been targeted in the tasking workbooks and plans science and technology, the work stages of the F/E /research and development/ nomenclature rate as approval for the start of manufacture. No separate registration as per Article 1 Paragraph 1 is needed. Combines and enterprises must apply for the award of the "Q" quality mark 8 weeks before the conclusion of development, no later than the completion of the first product (in the case of one-off and small series manufacture), the first product lot (for mass production), the first series or first charge of products (in the case of large series and large-scale mass production).

(2) With respect to products developed and manufactured taking into account seasonal sales and fashionable design as well as to products of the traditional range of foods with a longer shelf life, for the further development of the quality of which no tasking workbook is required, the general director or combine director may apply for the "Q" quality mark provided state quality criteria for top products are observed. In the process of plan preparation and in coordination with the ASMW, the ministries with jurisdiction decide the products to be oriented to the "Q" quality mark.

(3) The renewed award of the "Q" quality mark must be applied for at least 8 weeks before the expiry of the period of validity of the test certificate issued.

(4) Applications for the award/renewed award of the "Q" quality mark must be transmitted to the ASMW on form ASMW 104 or ASMW 105 (for products of the food industry).

(5) Applications for the award/renewed award of the "Q" quality must obligatorily be accompanied by the operating standards with quality criterion, up-to-date international comparisons, market economic comparisons, the change in performance features consonant with the "principles for the evaluation and comparison of performance features of industrial products,"<sup>3</sup> the minutes of the concluding defense of the tasking workbooks (in the case of the first award), including evidence of the prerequisites for sample-true and faultless manufacture as well as evidence of the accomplishment of requirements imposed by the ASMW (in the case of award renewal).

(6) When applying for the award or award renewal of the "Q" quality mark, combines and enterprises must confirm that they meet the quantity and value data on output and export volume as well as the requirements on the efficacy of assignments in the tasking workbook or the plan, or can prove observance of the performance parameters and normatives on technical safety, health, accident prevention and fire safety as well as environmental controls imposed on the basis of legal regulations by other state organs and facilities.

#### Article 6

(1) Cleaners or service enterprises of the local supply system as well as non-branch enterprises processing service assortments such as

-- Finished laundry

-- Cleaning of rawhide, furs and synthetic fibers,

-- Laundry for social requirements,

are subject to ASMW supervision with regard to the observance of the quality requirements determined for these services. The service assortments are appraised by quality stages.

(2) When taking new facilities into service (plant or plant sections), enterprises as per Paragraph 1 must provide the following data to the ASMW, technical department cleaners:

a) The name and address of the enterprise,

b) Ownership of the enterprise

c) Number of available washers or cleaning machines and their capacity as well as the number of all machine sets required for complete operation

d) Annual yield (tons in the case of laundries, TM in the case of cleaners).

(3) The ASMW records the results of checks in inspection reports. On the basis of an agreement between the ASMW and the appropriate state organ for state enterprises of the local supply system, quality stimulating measures are initiated after evaluation of these results.

## Article 7

- (1) This implementing regulation takes effect on 1 January 1984.
- (2) Losing effect at the same time is the order of 1 September 1982 on the Duty of Notification and Inspection in the Field of State Quality Controls (GESETZBLATT special issue No 803/6).

## FOOTNOTES

1. All forms listed in this implementing regulation are available for purchase from the Spremberg Form Publishing House, Geschwister Scholl Street 34, 7590 Spremberg. When ordering, quote the form No with the addition of ASMW, for example "ASMW 101".
2. To be obtained by EDP Order No 019071 at the Standardization Publishing House, P.O. Box 840, 1020 Berlin, citing the customer No.
3. Currently in effect is ASMW-VW 1393 of 28 September 1981.

### Appendix to Paragraph 1 of the Preceding First Implementing Regulation

#### Industrial Products Not Subject to ASMW State Quality Control

- 101 10 000 Electric energy
- 111 40 000 Thermal energy (steam, hot and warm water)
- 114 00 000 Fuels for nuclear power plants
- 121 10 000 Ferrous metal ores, ferrous metal agglomerates
- 122 10 000 Noneferrous metal ores
- 122 20 000 Nonferrous metal ore concentrates
- 131 17 000 Special devices for the operation and maintenance of water supply facilities
- 131 17 800 Special devices for the operation and maintenance of waste water and waste water treatment facilities

However, the following product heading is subject to ASMW state quality control

131 17 830 Special devices for the operation of waste water treatment facilities

- 131 35 900 Component assemblies, components and replacement parts for construction machines
- 135 81 000 Constructions for traffig bridges made of steel and aluminum alloys
- 135 82 000 Constructions for water and underground structures made of steel and aluminum alloys
- 135 83 000 Steel structures (excluding light metal structures 135 89 000)

However, the following product headings are subject to ASMW state quality control

135 83 341 Movable or collapsible structural frames made of steel  
135 83 983 Bar grate covers

- 135 85 000 Steel and aluminum structures for traffic safety
- 135 86 400 Steel radio towers
- 135 86 500 Special steel structures for towers
- 135 86 700 Industrial steel chimneys
- 135 89 400 Hall structures made from aluminum alloys
- 135 89 600 Roof structures made from aluminum alloys
- 135 89 850 Aluminum alloy components for light metal structures
- 144 00 000 Products of the pharmaceutical industry

However, the following product headings are subject to ASMW state quality control:

- 144 17 900 Sodium chloride, I.AB
- 144 95 100 Cholic chloride for animal feed
- 144 96 000 Premixes containing pharmaceutical substances for animal feed

- 151 23 900 Miscellaneous gravel and gravel sand
- 151 24 900 Miscellaneous sands for construction
- 151 29 000 Miscellaneous natural stones
- 15q 42 000 Clays and loams
- 151 92 000 Miscellaneous earths
- 151 93 000 Transportation concrete
- 151 94 000 Diatomaceous earth and diatomaceous earth products
- 151 99 110 Cast basalt
- 152 19 000 Concrete elements for miscellaneous buildings (not designated standard structures), built by the reinforced concrete framework method
- 152 21 000 Concrete elements for buildings constructed by the 0.8 Mp wall construction method
- 152 22 000 Concrete elements for buildings constructed by the 2 Mp wall construction method
- 152 29 000 Concrete elements for buildings of unspecific load stages constructed by the reinforced wall construction method
- 152 32 000 Power plant construction typical concrete elements
- 152 42 100 Road construction slabs for junctions
- 153 87 000 Horticultural and agricultural items made from clay
- 157 20 600 Sill plates
- 157 20 800 Lasts
- 171 10 000 Products of high seas and coastal fishing
- 171 20 000 Products of fish processing as well as products derived from shellfish, crustaceans and sea mammals (excluding canned and preserved products)
- 171 80 000 Products of the processing of products from the sea

However, the following product headings are subject to ASMW state quality control

- 171 21 600 Fresh fish, filleted, flash frozen
- 171 21 700 Fresh fish, filleted, portioned, flash frozen
- 171 23 500 Smoked fish, cold smoked
- 171 24 000 Products made of broken pieces of fish or fish mixtures, flash frozen
- 171 27 120 Salt water crayfish



172 10 000 Meat  
     - uncut carcasses after slaughtering--including slaughter offcuts  
     (excluding offal, raw fats and byproducts) - fresh (refrigerated) and  
     flash frozen  
 172 20 000 Edible slaughter offal - fresh (refrigerated) and flash frozen  
 172 30 000 Animal fats  
 172 40 000 Cut up meat (fresh, refrigerated, flash frozen)  
 172 90 000 Byproducts of the meat industry

However, the following product headings are subject to ASMW state quality control

172 17 300 Chicken meat, including broilers  
 172 35 100 Animal fats derived from pigs  
 172 95 110 Beef hides and young heifer hides  
 172 96 140 Pig hides

173 34 000 Butter cream  
 173 72 000 Egg products, fresh or liquid  
 173 79 999 Miscellaneous egg products  
 173 80 000 Dairy industry products for livestock feed, including crushed egg shell  
 173 99 000 Whey and milk products as well as other products of the dairy industry  
     not listed (excluding products for livestock feed--173 80 000)

However, the following product heading is subject to ASMW state quality control

173 99 330 Dried milk

174 13 000 Afterproducts and wastes of the milling and essential food industry  
 174 13 000 Germs  
 184 28 000 Raw fruit for brewing  
 174 39 000 Wastes from fresh baked goods, for livestock feed  
 174 59 000 Pasta industry wastes for livestock feed  
 174 81 000 Frozen products of the baked goods industry  
 175 10 000 Vegetable oils and fats, raw  
 175 21 000 Vegetable oils and fats, pre-refined, separate varieties  
 175 25 000 Soft fat, raw  
 175 31 000 Vegetable oils and fats, hardened, raw, separate varieties  
 175 42 220 Rendered fat  
 175 60 000 Crushed grain and oil cake  
 175 90 000 Miscellaneous products of the vegetable fat industry

However, the following product heading is subject to ASMW state quality control

175 91 100 Lecithin

176 11 000 Raw sugar  
 176 13 000 Wet shreds  
 176 14 000 Dry shreds  
 176 15 000 Shreds resulting from the Steffen sugar scalding process  
 176 17 000 Perfect beet shreds  
 176 18 000 Beet-waste for livestock feed

176 21 510 Nut mash  
176 21 600 Chopped and shaped products  
176 22 000 Semifinished and byproducts of the cocoa goods industry  
176 53 000 Starch modifiers  
176 59 000 Miscellaneous products of the starch industry

However, the following product headings are subject to ASMW state quality control

176 22 400 Chocolate and cocoa couverture mass  
176 22 500 Nougat mass  
176 53 200 Tapioca  
176 53 300 Starch that swells  
176 59 250 Wheat gluten  
176 59 300 Gluten

176 72 000 Potato byproducts and potato waste products  
177 93 000 Husks  
177 95 000 Fruit and vegetable processing industry wastes for livestock feed  
177 96 000 Prepared fresh vegetables  
177 97 000 Prepared fresh fruit  
177 99 000 Miscellaneous unlisted products of the fruit and vegetable processing industry  
178 10 000 Spirits  
178 40 000 Products of maltings and hops

However, the following product headings are subject to ASMW state quality control

178 12 100 Refined spirit  
178 41 000 Pilsen malt  
178 42 000 Special brewing malt

178 59 000 Byproducts and waste products of breweries  
178 89 000 Miscellaneous yeasts  
178 90 000 Miscellaneous products of the fermentation and beverage industry  
179 18 000 Tobacco waste products  
179 19 000 Miscellaneous tobacco goods  
179 33 000 Malt extracts for the further processing industry  
179 39 000 Miscellaneous products  
179 88 000 Synthetic ice  
182 41 000 Polished gemstones and pearls  
182 42 000 Personal jewelry  
182 43 000 Interior and table decorations (industrial art and handicraft objects excluding leather goods and textile products)  
182 44 000 Smokers' accessories  
182 45 000 Artificial flowers and similar items, components  
182 46 000 Celebratory and joke items  
182 49 000 Miscellaneous gift items  
184 00 000 Products of the record and film copying industry  
187 00 000 Water supply products  
188 00 000 Miscellaneous industrial products (special instructional materials and models, models for econometrics and science, and so on)

189 00 000 Scrap materials and production wastes  
312 00 000 Products of crop cultivation

However, the following product headings are subject to ASMW state quality control

312 11 000 Grain excluding rice (consumption)  
312 12 000 Grain (seed)  
312 13 000 Legumes (consumption)  
312 14 000 Legumes (seed)  
312 21 100 Turnips (consumption)  
312 22 000 Oilseed including seed of fibrous plants (seeds)  
312 24 300 Sugar beet seed  
312 24 400 Sugar beet seedlings  
312 25 5000 Medicinal and spice plants (seeds and seedlings)  
312 25 320 Tobacco (seed)  
312 25 330 Tobacco (plants)  
312 32 000 Seed potatoes  
312 41 200 Hoed feed vegetables (ssed)  
312 41 300 Hoed feed vegetables (seedlings)  
312 42 200 Grasses (ssed)  
312 49 000 Seed and stock for fodder crops  
312 56 000 Vegetable legumes, pulpy fruit, edible roots, root vegetables (seed)  
312 57 000 Leaf, stem and bulbous vegetables (seed)  
312 58 000 Cabbage vegetables (ssed)  
312 72 000 Flower seed, bulbs, tubers, and so on

313 00 000 Animal husbandry products  
320 00 000 Inland fishing products  
350 00 000 Forestry products

#### Second Implementing Regulation

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIC in German Part I  
No 37, 28 Dec 83 pp 416-417

/"Second Implementing Regulation to the Decree on the Development and Safeguarding of the Quality of Products - State Quality Control of Design -" signed by M. Kelm, state secretary and director, Office for Industrial Design on 1 December 1983/

/Text/ The following is ordered on the basis of Article 27 of the Decree of 1 December 1983 on the Development and Safeguarding of the Quality of Products (GB1 I No 37 p 405):

#### Article 1

(1) Combines and enterprises must register industrial products (including packaging) as per Article 12 of the decree with the Office for Industrial Design (AIF) 6 weeks before the relevant tasks are incorporated in the plans science and technology.

(2) Combines or superordinated organs of enterprises, cooperatives and facilities must collect registrations<sup>2</sup> of new developments of products with the target "top design performance" (SL), confirmed by the general director or competent state manager.

(3) In the case of products generated as the result of short-term scientific-technological performances (clothing, shoes, leather goods, fabrics, articles of daily use, and so on), the AIF may, upon application by the respective industrial ministries, agree a registration procedure satisfactory to both parties and, consonant with the development emphases, annually decide product groups subject to the obligation to register or obtain a ranking.

(4) In nationally justified instances and in coordination with the appropriate industrial ministers, the manager of the AIF may exempt products from the obligation to submit to state design inspections.

#### Article 2

(1) Products that require AIF approval for targeting achievement of the design ranking "SL" in the tasking workbooks, are subject to design ranking procedures. Combines and enterprises are obligated with regard to these products to submit the tasking workbooks to the AIF with a view to the issue of approval.

(2) For products that are developed without tasking workbooks, an international design comparison must be submitted to the AIF. The submission of other data is regulated as per Article 16 of the decree.

(3) Denial of the "SL" target justified by an AIF technical department may be appealed to the manager of the AIF. He issues a final decision following another inspection.

#### Article 3

Upon approving the design target as per Article 2 of this implementing regulation, the AIF determines the type of state influence on the development of the product.

#### Article 4

(1) Upon evidence of series readiness,<sup>3</sup> the product is subjected to state design inspection (ranking award). If the prerequisites as per Articles 12 and 14 of the decree are met, the "SL" design ranking is awarded.

(2) The AIF decides on the type of inspection and the need to make available test samples and other data as per Article 15 of the decree.

(3) The "SL" ranking's period of validity is decided upon its award.

(4) A limited extension may be applied for at the AIF 8 weeks before expiry of the period of validity of the "SL" ranking.

## Article 5

- (1) This implementing regulation takes effect on 1 January 1984.
- (2) Losing effect at the same time is the order of 1 September 1982 on the obligatory inspection of products by the state quality control (GESETZBLATT special issue No 803).

## FOOTNOTES

1. First implementing regulation of 1 December 1983 (GBI I No 37 p 412).
2. Data as per sample in appendix.
3. Concluding defense as per the order of 28 May 1975 on the Nomenclature of Work Stages and Performances of the Plan Science and Technology (GBI I No 23 p 426) as well as per Article 10 of the decree of 17 December 1981 on the Tasking Workbook for Tasks of Research and Development--Tasking Workbook Decree--(GBI I 1982 No 1 p 11) and the first implementing regulation of 23 November 1983 to the Decree on the Tasking Workbook for Tasks of Research and Development--Tasking Workbook Decree--(GBI I No 36 p 361).

## Appendix to Article 1 of the Preceding Second Implementing Regulation

### Sample of the Registration with the AIF of Products Subject to Obligatory Design Inspection

1. Name and address of the manufacturer
2. Combine or superordinated organ
3. Name and address of the development enterprise
4. Authorized designer/design facility
5. Designation of the product (type designation), ELN /product and performance nomenclature/ No.
6. Planned quality target
7. Brief description of the product, intended application and field of use
8. Development beginning and end
9. Planned volume of production in the year of introduction and the first year following (quantity, value)
10. Intended exports, sales areas (quantity, value)

Registrations are to be addressed to:

The Office for Industrial Design  
Breite Strasse 11  
1020 Berlin

## Statute of Standardization Office

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I  
No 37, 28 Dec 83 pp 417-420

"Statute of the Office for Standardization, Measurements and Product Testing - Resolution of the Council of Ministers" signed by W. Stoph, chairman, GDR Council of Ministers on 1 December 1983/

/Text/

### Article 1

- (1) The Standardization, Measurements and Commodity Testing Office (ASMW) is the organ of the Council of Ministers for the management and planning of quality development, standardization and measurement. It carries out its tasks in implementation of the resolutions of the party of the working class on the basis of the GDR Constitution, the laws and other legal regulations.
- (2) The ASMW directs its work to the general improvement and safeguarding of the quality of all products and concentrates especially on the development and manufacture of top products for exports, the supply of the national economy and the public by combines and enterprises, the simultaneous rise in productivity, reduction in materials and energy consumption and, generally, the achievement of an increasingly favorable cost/result ratio. The ASMW assists combines and enterprises in the enforcement of the principle of faultless work, especially by the generalization and transfer of tried and tested experiences in this field. The ASMW is responsible for the constant further development of the principles and methods of quality work.
- (3) The tasks of the ASMW include above all
  - The enforcement of the state quality criteria consonant with national requirements and taking into account the advanced international standards of science and technology and the implementation of state quality controls as well as the classification of products on the basis of the highest possible level of science and technology in order to ensure the greatest possible national efficiency,
  - The uniform management and planning of national and international standardization efforts, especially for the improvement and safeguarding of the quality of all products, the reduction of materials and energy consumption and the rise of production efficiency,
  - The safeguarding of the uniformity of measures and the correctness of measurements in the national economy and state influence on the development of rational metrology oriented to the greatest possible efficiency and quality of social labor.
- (4) To deepen socialist economic integration in CEMA, in particular by cooperation with the USSR, the ASMW must--in coordination with other central state organs--make sure that scientific-technological cooperation is effectively encouraged and the export suitability of products safeguarded by

- The state quality control of products,
  - The drafting of progressive standards consonant with advanced international levels,
  - Metrology based on advanced scientific-technological standards.
- (5) In the field of state quality control, standardization and measurements, the ASMW represents the GDR
- At the appropriate CEMA organs,
  - At other specialized international organizations, and
  - Toward national organs and facilities of other countries active in this field.

## Article 2

(1) In preparation of the state plan science and technology, the ASMW drafts assignments regarding the improvement of the quality of production, especially for ensuring the greatest possible efficiency by means of products with the "Q" quality mark. Here the ASMW closely cooperates with the Ministry for Science and Technology, the State Planning Commission and other central state organs. The ASMW is actively involved in the fulfillment and resolute overfulfillment of the plans science and technology.

(2) To safeguard the necessary speed of production renewal, the ASMW actively affects the preparation of the targets to be included in the tasking workbooks and by approval of the tasking workbooks ensures that the targets take into account scientific-technological progress and the capacity development of the national economy. It checks on the realization of the targets included in the tasking workbooks to ensure that the scientific-technological results are made effective for quality and efficiency development.

(3) The ASMW is responsible for the drafting of state quality criteria. Taking into account the dynamism of scientific-technological progress and market trends, it ensures their constant conformity with national requirements for the achievement of the best possible quality and reliability of products. The ASMW checks on the appropriateness to the state quality criteria of the targets in the tasking workbooks and the quality provisions in standards. In coordination with the respective central state organs, the ASMW determines the principles for the appraisal and comparison of performance features of industrial products.

(4) The ASMW collaborates with the Office for Industrial Design to ensure the unity of technical and design quality.

(5) The ASMW exercises state control on the quality of products and, consonant with the legal regulations in effect, issues the "Q" quality mark. The ASMW issues instructions, carries out administrative penalty proceedings and imposes sanctions as provided in legal regulations.

(6) In coordination with other central state organs, the ASMW drafts the national targets for standardization, directed to the greatest possible social effect.

### Article 3

(1) The ASMW sees to it that USSR experiences are utilized in the fulfillment of tasks in the field of quality development and safeguarding, standardization and measurements, and that the working people's creative initiatives and readiness to serve are encouraged, especially in the socialist competition and the innovator movement. It assists politico-ideological work in the field of quality development and guarantees and generalizes the experiences of the best. In the enterprises, the ASMW encourages the development of mass initiatives in the struggle for good quality, especially with regard to

- The development of and increase in the manufacture of top products,
- The guarantee of reliability, safety and durability of the products,
- The introduction and perfection of the methods of faultless work for quality and contract appropriate production so as to avoid complaints.

(2) The president awards the title "combine or enterprise of distinguished quality work" to encourage the mass initiative for efforts to achieve satisfactory quality.

(3) The ASMW encourages effective publicity. It issues the periodical STANDARDISIERUNG UND QUALITAET. The Standardization Publishing House is in the ASMW's scope.

### Article 4

(1) By way of planning and plan supervision, the ASMW ensures the drafting and introduction of standards as an element of scientific-technological assignments. In cooperation with the appropriate organs, it makes sure that standardization is oriented mainly to

- The development and rational manufacture of top products,
- The rationalization of production preparation,
- The rationalization of production by safeguarding the standardization, interchangeability and compatibility of components, component assemblies and products,
- The improvement of materials and energy conservation,
- Safeguarding health precautions and accident prevention as well as fire safety, environmental quality and control,

and to the guarantee of steady conformity with national requirements, including the absence of contradictions between GDR and special sector standards.

(2) By its influence and supervision, the ASMW ensures that the quality determining indices of standards correspond to national requirements and, based on international trends, are constantly updated, and that tasks required for revision are included in the plans science and technology consonant with national needs.



(3) The ASMW ensures that national standardization efforts proceed in conformity with the tasks involved in the further deepening of socialist economic integration in CEMA and taking into account the standards of advanced industrial countries as well as international organizations. By way of the economic plans and plan supervision, it guarantees that GDR state standards are unified with those of the USSR as per the requirements on the deepening of scientific-technological and economic cooperation in order further to speed up the international socialist division of labor. The ASMW checks on the planned introduction by the appropriate organs in the GDR national economy of the results of CEMA standardization work, especially CEMA standards.

(4) The ASMW is responsible for checking the observance of standards and, in the case of dispute, provides mandatory interpretations of standards.

(5) Not affected by these provisions is the responsibility of other central state organs which, as per legal regulations, need to carry out standardization tasks.

#### Article 5

(1) The ASMW directs its state influence to safeguards for the greatest possible efficiency of measurements. In particular it concentrates on the need to safeguard the efficacy of measurements in the combines in accordance with the growing challenges to the technological level of production, the quality and reliability of products and the reduction in the cost of labor time, materials and energy.

(2) The ASMW ensures the uniformity of measures and the correctness of measurements in conformity with national requirements and the tasks involved in the further deepening of socialist economic integration by

- Making available and further developing state standards and standard procedures based on its own metrological research and on research contracts,
- Determining the valid measurement units in conformity with legal regulations,
- Licensing types of measuring device construction as well as carrying out the official calibration of measuring devices.

The ASMW sees to it that manufacturers guarantee the demand-appropriate national supply of measuring and testing devices, and that combines and enterprises increasingly use the construction of rationalization aids for the production of specific measuring and testing devices.

#### Article 6

(1) ASMW state quality inspectorates are operating in centrally managed combines of industry to supervise the enforcement of state quality policies. The establishment of state quality inspectorates in other combines may be agreed between the ASMW and the appropriate superordinated organs.

(2) The state quality inspectorates assist combine general directors in the development and safeguarding of the best possible qualitative standard of production, especially by

- The exercise of efficient checks to safeguard performance targets in the tasking workbooks as well as realize them in new products and technologies conforming to market demands and top international standards,
  - Inspections to ensure sample-true manufacture and faultless work as well as transmit experiences in the development and enforcement of modern quality guarantee systems,
  - Checking the observance of standards as well as evaluating their scientific-technological levels.
- (3) On the basis of laws and other legal regulations, state quality inspectorates carry out tasks involved in safeguarding national defense from the aspect of the economy.

#### Article 7

- (1) To safeguard prior scientific work in the field of quality guarantees, standardization and measurements and in cooperation with other central state organs, the ASMW drafts targets and assignments for the state plan science and technology and coordinates research in this field.
- (2) The ASMW assists the Ministry for University and Technical School Affairs and other central state organs in the matter of training and further education in the field of quality control, standardization and measurement at GDR universities and technical schools. It assists the State Secretariat for Vocational Training and other central state organs in the vocational training of apprentices as well as the training and further education of skilled workers and foremen by drafting directives on issues of quality control, standardization and measurements so as to ensure quality work.

#### Article 8

- (1) The president manages the ASMW on the principle of one-man management, coupled with collective discussion of basic issues. The president is personally responsible to the Council of Ministers for the entire operation of the ASMW. He notifies the Council of Ministers and its organs of significant problems arising in the scope of the ASMW.
- (2) The president takes the decisions requirement for the management and planning of the ASMW within the scope of the rights and duties assigned him and conforming to total societal requirements; he also ensures coordination with other central state organs. He guarantees the consistent implementation of socialist law and the observance of socialist legality.
- (3) The president is responsible for the exact implementation in his sphere of responsibility of all measures needed to safeguard national defense, including civil defense, and all other tasks arising from the laws and other legal regulations as well as decisions of the authorized organs concerning national defense, internal security and order.

(4) In his jurisdiction, the president issues orders and implementing regulations. With respect to

- State quality control and evaluation,
- Standardization,
- State licensing and the calibration of measuring devices,
- The organization and operation of enterprise measurements

he issues ASMW instructions--Commodity Testing (ASMW-VW) and ASMW instructions--Measurements (ASMW-VW). Their issue is announced by order in the GESETZBLATT DER DDR. He settles tasks in his sphere of responsibility by directives and instructions.

(5) The president confirms GDR standards and makes GDR state standards effective by publication in the GESETZBLATT DER DDR.

(6) The following regulations by ministers and managers of other central state organs require assent by the president:

- Legal regulations touching upon issues of state and enterprise quality control, standardization and measurements;
- Basic branch specific regulations on quality development and safeguards, standardization and the organization of enterprise measurements.

#### Article 9

(1) The president is responsible for the rational organization of management and organization in his sphere of responsibility and for the steady perfection of work in this field, using the findings of management science.

(2) The president is responsible for the guidance and supervision of managers and regularly calls them to account. The president is authorized to issue instructions to ASMW managers and staffs.

(3) The president is responsible for the selection, development and education, training and further education as well as the employment of ASMW cadres and for the establishment of a cadre reserve. He is the disciplinary superior of the managers and staffs. In accordance with the ASMW cadre nomenclature, he decides on the appointment to nomenclature functions.

(4) The council is the president's advisory organ. The make-up and method of operation of the council are regulated by directive.

(5) The ASMW increases its effectiveness by the involvement of politically and technically qualified and experienced personnel from science, technology and production in the accomplishment of its tasks, especially by their appointment as ASMW experts.

(6) The ASMW is authorized to assign tasks and powers in the field of state quality appraisal and control as well as measurements and, for that purpose, establish outside offices or metrological inspectorates at combines, enterprises and facilities. The president decides the method of operation in agreement with the appropriate ministers.

#### Article 10

(1) The president is assisted in the exercise of his functions by the first deputy to the president and by vice presidents.

(2) The Council of Ministers confirms the outline structure and table of organization of the ASMW.

(3) The president decides the responsibilities of the first deputy, the vice presidents, the tasks of the structural units, the method of cooperation among the structural units and the responsibilities of their managers and staffs, in the ASMW operations order and functional plans.

#### Article 11

(1) The ASMW is a legal entity and budget organization. It is domiciled in Berlin, capital of the GDR.

(2) In legal affairs the ASMW is represented by the president. The first deputy to the president and the vice presidents are authorized to represent the ASMW within the scope of their assignments.

(3) ASMW personnel or other persons may represent the ASMW within the scope of powers assigned them by the president.

#### Article 12

(1) This statute takes effect upon publication.

(2) Losing effect at the same time is the Council of Ministers' resolution of 9 January 1975 on the Statute of the Standardization, Measurements and Commodity Testing Office (GBI I No 16 p 301).

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CSO: 2300/228

ECONOMIC RESULTS FOR 1983: 1984 TASKS DISCUSSED

Budapest HETI VILAGGAZDASAG in Hungarian No 52-53, 24 Dec 83 pp 4-6

[Interview with Laszlo Ballai, director of the Economic Policy Department of the MSZMP [Hungarian Socialist Workers' Party] by Mihaly Muranyi: "Hungarian Economic Policy: Year's End Questions;" date and place not specified]

[Text] On the threshold of the new year the question arises in all of us: how to continue? Will we maintain the current economic policy? How could we ease the unfavorable consequences of the changes in world economics? All in all how does our economic leadership assess the most relevant tasks of our macroeconomic management in 1984? What should happen to those economic sectors and industrial branches which as a result of the current world economic situation have suffered setbacks? Why are price increases inevitable? We posed all these questions to Laszlo Ballai, director of the Economic Policy Department of the MSZMP Central Committee.

[Question] The task of maintaining our international solvency, the timely amortization of our foreign loans and the interest service on these credits represent a heavy burden for our national economy, indeed for our entire society. Does our macroeconomic management see any other alternative?

[Answer] In view of the changes in world economics, which have been unfavorable to us, and also because of the deficiencies in our macroeconomic management which have led in the late 1970s to the accumulation of large foreign debts, one of the prime goals of our Sixth Five-Year-Plan has been to improve our international financial balance. A paramount achievement of the last three years was that, despite unusually difficult conditions, we managed to improve our international trade balance, to reduce, albeit modestly our foreign liabilities and to maintain our international solvency. At the same time we kept our economy functioning smoothly and even created certain indispensable conditions for progress. The result of our economic achievements, the high standards of our food supply and some modest improvements in our standards of living compelled the admiration of the world.

As a result of adverse foreign and domestic conditions, our macroeconomic management faced, during the last couple of years, unexpectedly difficult tasks. Our analysis of the international political and economic situation shows that the sluggish economic recovery, that has not yet involved all

markets, may only in some areas and in certain groups of products offer better marketing possibilities for our economy. We also have to count with continuing moves of protectionism and discrimination. The possibility of a sharpening discrimination cannot be discounted, and this might cause us further foreign marketing and financial difficulties. The experiences of other countries have proved to us that a rescheduling of the debts may elicit unfavorable economic, political and social consequences.

We have to be aware of the fact that if we failed to comply with our international financial obligations, we would lose our international prestige and would be deprived of all possibility of further loans, while we still would have to pay interests. At the same time we would be compelled to significantly reduce our imports and this would gravely affect our production, development, employment and consumer supply and would cripple our exports. All this would set back our programs designed to change our macroeconomic structure and to improve its efficiency. Yet those programs are indispensable for us to achieve a more balanced and longterm economic growth, for significant improvements in the standards of living and for laying the ground of our future.

Taking into account our experiences and the conditions to be expected, the Hungarian economy has great interest in keeping its solvency. Therefore the 1984 macroeconomic plans are setting forth increased efforts designed to improve the active balance of our trade in convertible currencies and to enhance our good standing abroad.

[Question] In light of all this how do you see the development of the Hungarian national economy in 1983?

[Answer] A most relevant answer to your question and the best reflection of reality is contained in the communique issued on the 7 December session of the Central Committee: "Thanks to the firm stand and devoted labor of our workers, our national economy has developed, despite of a further deterioration in the foreign conditions and the drought that has hit our agriculture, in agreement with the basic lines of our economic policy and coming close to the main targets of it." This statement covers important facets of our achievements, such as that we were able to keep our international solvency also this year, that we have improved, albeit modestly but in line with the possibilities, the conditions of life of our population. We achieved all this without affecting the overall internal balance of our macroeconomy. Our national income has developed more or less along the plans. Under the present circumstances we have to consider it as an outstanding achievement that the active balance of our foreign trade in convertible currencies this year is expected to outstrip that of 1982. The deficit of the state budget will be less than planned. Another auspicious development is that some qualitative features of our economy, for example productivity, material and energy management have marked considerable improvement.

However, along with the accomplishments we still have our problems. Some of these are not closely related to our activities. For example the further

deterioration in the conditions of international trade in almost all areas, as well as the drought that severely affected our agriculture and its long-term impact, will be still perceptible next year. In addition to these objective factors, I should also mention the deficiencies of our macro-economic management, in the first place the fact that the productivity of our economy did not develop satisfactorily. We failed to keep domestic utilisation within the planned limits, above all investment exceeded the plans. All these have made certain measures necessary which were unfavorable to the enterprises but which were indispensable for the attainment of our goals.

In sum we may consider it as a great accomplishment that, as a result of the efforts of enterprises and workers and the guidance of macroeconomic management, and despite the deteriorating conditions, our principal goals have been attained and this stimulates us to pursue our current economic policy.

[Question] How would you outline the economic agenda for 1984?

Are next year's tasks very different from those of the past?

[Answer] Before summarizing next year's business, I would review the conditions that we have to take into account when shaping up the 1984 economic plan. The most important among these is that the political and economic ties will not only remain unchanged but in certain areas they may become harder. The burden of debt service remains significant while access to medium and longterm loans is limited. The slow and sluggish recovery of the developed capitalist countries is not likely to improve our marketing possibilities. Some of the developing countries have solvency problems and import from the socialist countries cannot be increased essentially. Taking all this into account, our most important task remains, just as in the past, to strengthen the equilibrium of our national economy, to improve the balance of our foreign trade and to preserve our financial solvency. In order to accomplish this in 1984 we should realize an active balance of 700-800 million dollars in our foreign trade in convertible currencies.

Our other outstanding tasks are to protect the standards of living of the population, to provide a proper balance between purchasing power and the supply of consumer goods, including improvements in certain areas, and to improve compliance with the demand for services. However the preservation of the standards of living and improvements in the conditions of life can only be accomplished by further development in our economic possibilities and improvement in the balance of foreign trade.

Progress in the equilibrium of our economy and the creation of more balanced conditions for economic development can only be achieved by improvements in our productivity and competitiveness by a modernization of the production structure, by an acceleration of technological development, by a more thrifty expenditure management, by more productive investments and more resourceful marketing activities.

The implementation of our economic policy poses greater requirements to the production sphere, above all to industry. The growth of industry's contribution to the national income and to the balance of our foreign trade are indispensable conditions for our economic development. In the construction industry a better accommodation with demand is required, the time of implementation should be reduced and quality improved. In agriculture an increase in the production yields should be achieved while reducing the expenditures.

Despite the similarity of the tasks we had to undertake during the last couple of years and those we are facing in 1984, we should not believe that next year we will have only to repeat the performances of the past. For the plan bases the expected improvements on an already accomplished higher standard. Thus both in work and management we have to abide by higher requirements. This is difficult although we may rely on the fact that the favorable processes, which have already been noticeable in the enterprises, will gain momentum next year and the qualitative elements of management will increasingly prevail.

We should also be aware of the fact that as a result of longterm curbs on certain economic reserves, which could be successfully mobilized in the past, for example domestic utilisation, particularly accumulation, can now only be counted with on a reduced scale. However we should welcome the fact that in the long run the results of certain auspicious processes, as the decrease in the demand for imports, import substitutive, energy rationalizing and material saving efforts are already noticeable. These are not occasional phenomena but trends resulting from the endeavors of previous years. We may safely rely on the strengthening of these trends as long as we put the factors of productivity into the focus of our activities.

[Question] The competitiveness of the Hungarian economy on world markets could, as you noted it, decisively be improved by the modernization of the product structure and the acceleration of technological development. But at the same time we have from year to year less money for investments and for the import of machines and equipment. Does this not jeopardize the ability of Hungarian industry to compete on foreign markets?

[Answer] It is a fact that our economic leadership is currently seriously concerned about the decrease in accumulation, because that portion of our national income that was turned over to this sector has significantly declined over the last couple of years, and particularly the investment quota has dropped seriously. There is no doubt that our future development could be more safely based on higher rates of accumulation. But on the other hand we should be aware of the fact that our solvency could only be maintained, during the last four or five years, by curbing domestic utilization and primarily by reducing investments.

According to some professional analyses our investment quota is in international terms still not lower, even after the reductions, than that of the most developed capitalist countries. It is also true that between the ratio of



investments and the dynamism of the individual national economics there is no unequivocal and logical correspondence. It flows from all this that if with a high ratio of investments the economic achievements are still moderate--and we have a few examples for this in the Hungarian economic history--we are facing a productivity problem. I think that we had to and we still have to look for reserves in this area which might counterbalance the negative impact of the decrease in investments. For example we have to try to exploit more rationally and efficiently the available smaller investment resources. Therefore we have to pay more attention to those development projects which provide the greatest profitability, competitiveness and technological progress. Besides we should not forget that the exploitation of our available fixed assets should be streamlined to the demand of the market and that we should make the entire investment-development process productive in all its details.

[Question] The changes in the conditions of world economy brought about critical situations in many industrial branches and economic sectors in many countries. These sectors are playing an important role also in the Hungarian national economy. There are quite a few of those in our country who advocate radical cutbacks in these sectors. Others consider the strategy of "flight ahead" as a viable alternative. How do you see the situation and tasks of these sectors?

[Answer] There is no doubt that the radical increase in the prices of energy carriers and of many raw and basic materials, the decline in market demand and changes in its structure, brought about difficult situations in many sectors. We cannot escape the impact of these developments since our international economic ties are exerting great influence upon the shopping and marketing possibilities of these sectors. It is well known that during the last couple of years great problems have arisen also in our country in certain branches of metallurgy, chemical industry and light industry. However it might give us cause for cautious optimism that during 1983 the demand has become stronger on the markets for certain aluminum and chemical products.

Those who are knowledgeable in economics are well aware of what an important role these industrial sectors are playing in the Hungarian national economy in the areas of both domestic supply and export. It is also widely known that important developments have been accomplished in these sectors during the last decades. A great majority of these developments seems to be justified, even with the advantage of hindsight, in view of our mediocre developmental status. Suffice it to point out how necessary it was to provide the modern processing industry with raw and semi-finished materials, to mechanize agriculture, to improve the consumer goods supply of the population and to disseminate the results of scientific-technological progress, for example, that of chemical processing.

The MSZMP Central Committee dealt recently with the situation of industry and outlined the most important tasks ahead. It noted that the future trends of development of Hungarian industry cannot be but diversified, they have to be streamlined to the trends of international scientific-technological progress and to the marketing possibilities. It follows from all this that the future of such branches that are now in a difficult situation should not be subject

to the impact of transient business cycles but ought to be shaped in agreement with their longterm chances and economic interests. In case of these industrial sectors it is particularly important to emphasize that the goal of development should not primarily be an increase in output but progress in the technological-technical standards, improvements in the product structure and better profitability and competitiveness.

[Question] According to the communique on the Central Committee session the consumer prices may rise in 1984 by 7-8 percent. In 1983 the prices rose approximately in the same proportion. Why are price increases necessary?

[Answer] One of the basic functions of prices--both production and consumer prices -- is to correctly orient and stimulate the decisions of both producers and consumers. Prices are complying with this requirement if they reflect the socially required costs, the valuation of the market and the international price ratios. A deviation from these conditions is only for the pursuit of conscientiously adopted goals justified.

The extent and ratio of price movements, that may be expected next year, are influenced--aside from the general requirements of price policy--by some concrete conditions. We have to take into account the fact that the costs of production have risen in various areas. In order to assure the smooth supply of goods and to balance bid and demand, we had to reflect the changes in costs in the consumer prices. The guiding principle of our long-time consumer price policy has been, with the exception of some consciously decided revisions, to avoid a lasting break between costs (production prices) and consumer prices. We had to consider also the fact that, despite efforts undertaken during the last couple of years, subsidies to the consumer prices are still significant and wide in scope. They amounted in 1983 to 60-70 billion forints. Price subsidies are particularly important in cases of food, medicaments, public transportation, construction materials, communal and other services and combustibles. Great differences between consumer and production prices have an unfavorable impact since they distort the picture of economic effectiveness and raise unjustified demand for the subsidized goods. This should be particularly taken into consideration nowadays when an improvement in the international balance of our economy constitutes the paramount objective of our economic policy. However our economic policy has always paid particular attention to the balancing of consumer prices against consideration inherent in our standards of living policy.

The accomplishments of our national economy make it possible to raise in 1984 the income of our population by about 8 percent and thereby to maintain its consumption and real income on the 1983 level. Within the general income of the population, the average salaries will rise by approximately 5 percent, and the social benefits and receipts from other sources by more than 10 percent. We have to maintain the balance between purchasing power and the available merchandise stock.

[Question] "The party considers it necessary to improve and develop the macroeconomic management system," noted the MSZMP Central Committee at its

session which evaluated our work accomplished since the 12th Party Congress. How far did this work progress?

[Answer] We consider the development of the macroeconomic management system--in agreement with our tested practice--a continuous task. Thus the preparatory work has been started already earlier on the basis of instructions issued by the 12th Congress. These are based on an ample social background and scientific research. In order to coordinate the differing views and opinions and to work out the proposals, high-level state and party bodies have been constituted with the participation of prominent theoretical and practical experts. These are working intensely.

The first stage of the preparatory work has been closed recently. The basic principles and trends of the development plans, as well as the preliminary ideas concerning the concrete steps of implementation have been evolved. The government adopted a detailed program concerning the further course of the preparatory work. This includes ideas referring to the modernization of the forms of government guidance, economic regulators, banking system and the circulation of resources, it deals with the new enterprise models and management methods and with the development of the institutional system of supervisory guidance. Motions are being prepared for updating the interest protecting work, for widening the role of interest-coordinating mechanisms, for developing the system and methods of macroeconomic planning and for modernizing the guidance system as well as the statutes of regional development and of the business of the local councils. The proposals are expected to be ready for the beginning of 1984 and will subsequently be sent to the responsible political and state bodies. They also will be discussed by the Central Committee at an appropriate time. It is evident from all this that the government and the party do not deal only with the day-to-day questions of the economic policy but pay proper attention to the definition of our longterm tasks. Finally, let me point out that the implementation of both our daily and longterm goals demands the firm standing and disciplined and creative work of all our society also in the future.

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CSO: 2500/167

LONG-TERM PROBLEMS OF FOOD INDUSTRY ANALYZED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 12, Dec 83 pp 1445-1459

[Article by Andras Elias, scientific department head of the Agricultural Research Institute, and Emilia Sebok, staff member of the Agricultural Research Institute: "Dilemmas of Food Production's Long-Range Development"]

[Text] Considerable fluctuations could be observed in food production and the world market for food in the 1970's and early 1980's. This fact, and also the role of food production in the Hungarian economy warrant that we focus our attention on several disquieting questions in conjunction with the export-oriented development of this branch. With our reflections we hope to contribute toward substantiating the long-range objectives of food production. Because our knowledge is limited due to the availability of information and the wide range of problems involved, the ideas expressed in this article will not be proven beyond doubt in every case, and therefore in many instances they might spark justifiable debate. However, some of the suggestions in this essay that merit consideration will contribute, we hope, to the debate on long-range planning that is taking place on the pages of KOZGAZDASAGI SZEMLE. (See the opening article by Janos Illes in issue No 12 of 1982, and the contribution by Gyula Varga in issue No 4 of 1983.)

Characteristics of the Development of Food Production and Trade at the Turn of the Decade

Hungarian food production showed relatively rapid growth in the 1970's: the average annual growth rates were 3.5 percent for the production of agricultural raw materials, and 4.2 percent for food processing. In contrast to the fairly even growth of the food industry, agriculture increased its output substantially faster in the first half of the decade than in the late 1970's when the already high yields could be increased only slightly. Work in this period was hampered also by years of especially bad weather. In accordance with the objectives, sustained increases were attained in the results of both livestock production and crop production. On the whole, food production in Hungary became more secure as a result of the improvement in the supply of materials and equipment, and of the rise in the technological level. However, the growth rates of the individual sectors within food production differed considerably, depending on how successful was the mutual coordination of the development of the biological, technical, technological and human factors of production.

A contributing factor in the growth of the production of agriculture and the food industry, and especially of their trade turnover, was also the considerable demand for their products during the past two decades in the world market and particularly in the socialist countries. Likewise favorable was the fact that the world economic conditions under "peaceful" economic competition, and also the state of the Hungarian economy at that time, permitted increasing --at relatively favorable prices--the imports necessary for the development of agriculture and the food industry. Unquestionably this, too, played a role in that less attention was devoted to the expansion of domestic protein-feed production, to the more efficient use of feed, manufactured fertilizer and plant protectants, and to the development of the so-called supplier industries that provide machinery and chemicals for the sectors within food production.

Prior to 1 January 1980, price changes in foreign markets had hardly any effect on the domestic prices of agriculture and the food industry. Already the ripple effect of the changes in import prices was cushioned, and simultaneously the domestic agricultural procurement prices did not reflect the changes in the export markets' value judgment. A more significant and lasting effect of the price mechanism that transmitted only the cushioned impacts of foreign-market changes is evident in that the desirable transformation of the production structure in agriculture and the food industry, its adjustment to the conditions in the market, occurred slowly and mostly piecemeal.

During the past 20 years, under the combined influence of how the quantities of exported products, the export structure and the world-market prices developed, the export volume of agriculture and the food industry steadily rose over the preceding year, except in 1976 and 1978. Aside from 1981, however, the export targets were fulfilled in essence only when a good year in agriculture was combined with favorable farm and food prices in the world market (1969 and 1973). Ruble-denominated export conformed more closely to the plan; dollar-denominated export, less so.

There were departures also in the fulfillment of the targets for food import. As a rule, dollar-denominated food import was greater than planned, while in most cases ruble-denominated food import was less than planned. Thus the opportunities for ruble-denominated import were systematically overestimated, and the demand for nonruble-denominated import was systematically underplanned.

A direct consequence of the unrealistic targets was that the trade balance of agriculture and the food industry often provided "surprises," particularly in the case of nonruble-denominated trade. This was the case even in 1979, a relatively good year: the surplus of the branch's balance of dollar-denominated trade increased by 60 percent over the preceding year but even so fell short of the 90-percent increase planned.

A permanent characteristic of the structure of Hungarian export, one that existed in recent years as well, is that the proportion of products supplied by the food economy is still high, around 30 percent, within nonruble-denominated export. In trade among the socialist countries that is denominated in rubles, however, we are participating predominantly with industrial goods, primarily with machinery, and here the proportion of foods is only around 15 percent. But the world-market price shocks of the 1970's shook also the CEMA market: the

value of raw materials rose, and this applies also to certain agricultural raw materials. Today more than half of our nonruble-denominated food export is bought by socialist countries, for hard currency or under agreements to supply raw materials. In the final outcome, we are exporting for hard currency 70 percent of our food export. The Hungarian economy has been able to achieve this proportion of dollar-denominated export orientation only in the commodity sections of energy sources, and of raw materials and semifinished goods. In other words, in the open markets where competition is stiff we are able to compete mostly with the products of the traditional extractive industries.

Let us revert briefly to the much discussed question of food production's balance of trade. In comparison with our total import, our ruble-denominated import of farm and food-industry products from the socialist countries is practically insignificant. Consequently, the import side of the balance of trade in this commodity section really consists of foods and feed that we import from capitalist countries because we either do not produce such foods and feed at all, or not in sufficient quantities. Even within our total nonruble-denominated import, however, foods, live animals and feed account for only 13 to 18 percent. In comparison with import, therefore, our export surplus of food covers 10 to 17 percent of the economy's other import in nonruble-denominated trade.

In the years following the first oil price shock, the ability of our economy to respond and adjust to the changed external conditions proved rather weak. Domestic use--primarily investment and the increase of inventories--rose faster in 1974-1978 than national income, and the growth rate of import was higher than that of export. All this culminated in the outstandingly large trade deficit in 1978. The measures introduced to restore external economic equilibrium made themselves felt already in 1979 in the substantial narrowing of the trade deficit. The improvement in the net balance of trade resulted on the one hand from maintaining the level of import--i.e., from curbing the further rise of import--and on the other hand from an expansion of export. The expansion of food export accounted for 27 percent of the improvement in the net balance of trade resulting from the higher trade surplus in 1978-1980. Due to the production potential of the branch and to the opportunities of the export markets, food production can only alleviate but not solve the economy's problems in its nonruble-denominated balance of trade and balance of payments.

The growth rate of food production was substantially higher than the growth rate of domestic consumption in the 1970's, and in this decade we expect consumption to stagnate rather than increase, or to increase at a slower rate than in the past. Thus the volume of products available for export will increase gradually. In addition to the physical quantity, of course, changes in the price level also play an important role in the rising value of food export, especially since 1973. In comparison with 1970 as the base year, the value of food export was more than double (239 percent) in 1980. This increase was the combined result of a 75-percent increase in volume, and of a 36-percent rise of the price level.

The rise of export reflects also the fact that emphasis on the quantity of export often relegated to the background the requirements of quality and economic

efficiency. At the same time the possibilities of increasing the export volume were limited by the problems in adjusting flexibly to the conditions in the foreign markets. These problems stemmed not only from the inflexibility of production, but also from the shortcomings in the foreign-trade enterprises' efforts to organize the market and obtain better prices, and from shortages of storage and transportation capacities.

The structure of the food economy's export by commodity divisions and groups did not change much during the past decade. Raw materials and products that underwent primary processing continued to account for the bulk (about 60 percent) of export. The most significant commodity groups within food export were grain, live animals, meat, and fresh fruit and vegetables. Within the circle of unprocessed commodities that determine the nature of our food export, however, significant qualitative changes occurred in the 1970's, specifically in the direction of processing: the proportion of grain declined because some of it was now being exported on the hoof or as meat; but at the same time, at the next step in the process, the export of live animals declined, in favor of exporting meat and dressed poultry. But these shifts in the structure of our food export reflect in their turn the important qualitative development of processing in agriculture and the food industry.

The 1970's produced also other qualitative changes in the structure of food export. New areas of production, developed specifically for export, emerged and then became consolidated within the food industry (primarily certain canned and quick-frozen products, canned ham, vegetable oil, and processed game). At the same time certain traditional export-oriented products--such as salami, paprika and tomato paste--retained and occasionally even increased their share of export. In the case of the traditional exports, however, the limits to market expansion and the problems stemming from a single market became increasingly pronounced, and the foreign-trade enterprises strived to resolve them by organizing new markets.

There was a substantial increase also in the import of agricultural products during the past decade. Protein feed of animal and vegetable origin, items that cannot be grown in our country (coffee, cacao, citrus fruits, etc.), and import for the purpose of expanding the assortment played the most important role in this increase.

In several years, the development of the prices in Hungary's food export and import resulted in a worsening of our terms of trade; in nonruble-denominated food trade such years were 1971, 1973-1975 and 1977 (the terms of trade worsened by 10 to 20 percent), while in our ruble-denominated trade this worsening occurred on a much smaller scale (3 to 7 percent) and later (in 1978 and 1980). Thus in 1977, the year that brought the highest (20-percent) price loss in our dollar-denominated trade turnover in food, the price of coffee was 70 percent higher than the year before, and the price of cacao was 50 percent higher, but there was a 40-percent rise even in the prices of oilseeds that we imported in large quantities for feed.

From the viewpoint of the profitability of domestic food production, and of the economic efficiency of export, essential is the ratio of the export prices of foods to the import prices of the imported production assets used. While we

were able to increase the prices of our exported foods by 36 percent during the past decade, the import prices of the most important agricultural equipment and materials obtained from import (N and P fertilizers, diesel fuel, fuel oil, etc.) doubled or trebled. Although in foreign trade the agricultural parity ratio improved significantly in the 1970's after the first oil price shock, the gap cannot be expected to close entirely, neither under the present recession nor the one anticipated in the immediate future, because the ratio of effective demand to supply is less favorable for the seller in the food market than in the market for the equipment and materials used in food production.

The rise in the import prices of the machinery, materials and equipment used in agriculture and the food industry calls attention not only to the need to use imports prudently, but also to the need for economic analysis that suitably rates the net foreign-exchange earnings or economic efficiency of the branch's export.

#### Arguments, Counterarguments for the Export-Oriented Development of Food Production

It follows from the state and conditions of our economy that the basic task of the food-producing branch will remain also in the long run the supply of the population's growing demand for food--including the demand generated by the expansion of tourism as well--in terms of quantity, quality and assortment, with products that can be produced domestically at a suitable degree of economic efficiency. In addition, the branch will play a by no means negligible role also in supplying the industries that process agricultural raw materials, particularly the flax, hemp, wool and leather industries, and to some extent also the pharmaceutical industry.

All this does not exhaust the conditions and opportunities for the reasonable expansion of the food economy's production. Therefore the foreign-market demand will have to determine increasingly in the future the direction and structure of the branch's development. In other words, this development will have to be export-oriented because a smaller proportion of the increase in the output of the branch will be sufficient to supply the growing domestic demand.

At a realistically moderate rate of development, the rate of export expansion in this branch will remain higher than the growth rate of its production. All this requires more reasonable planning of the branch's trade turnover, and the linking of its incentive system more consistently to the objectives of foreign trade.

The feasible and desirable directions in the trade-oriented development of the food economy's production must always be set on the basis of an accurate knowledge of the domestic conditions, and with due consideration for the market demand. In the following we will attempt to summarize the more important arguments in favor of the future development of production in agriculture and the food industry, and then we will discuss the limiting factors as well.

The distinction between the factors that enhance and the ones that hamper export-oriented development is not always clear-cut because in many instances the



elimination of our lag or less favorable conditions might be the specific cause of more rapid development.

Let us examine first the most important factors favoring the food economy's export expansion. These factors combine effects that are determined by our natural conditions, with effects that are independent of them.

--Hungary's soil, climate and terrain conditions permit the production of all food-industry raw materials that can be grown in the temperate zone, on a reasonable acreage, with acceptable efficiency. Over and above this, our natural conditions are among the best in Europe for many crops (grains and leguminous forage crops, and seed production).

Especially favorable among our natural conditions are also the outstandingly high ratio of arable land in Hungary and the large per capita acreage of farmland; in other words, the availability of farmland.

--Hungary's geographic location is favorable from the viewpoint of the more important food-importing markets (Western Europe and the European socialist countries), but the addition of more-distant large food importers (the Near East, Japan and the United States) to existing export markets is hampered by the absence of Hungarian seaports.

--The production and export of our most important products already have historical traditions. Our export of slaughter cattle and wheat dates back several centuries. But even the export of certain crops that developed at the turn of the century on the basis of their production districts' regional characteristics (Mako onions, Kalocsa paprika), or of certain sectors within the food industry that were developed in the period between the two world wars (for example, the production of tomato paste), has a commendable history.

--Favorable is the wide range of products that can be exported. This in itself does not ensure, but makes possible, the expansion of the export structure and export markets, and rapid and flexible adjustment to changes in the foreign markets' demand. Our most detailed statistics list about 1000 export items in the commodity section of foods, including the products that account for the bulk of food export and also many so-called minor items.

--The system of organizations for the production, marketing and export of food is undergoing continuous transformation. The organizational changes, which have accelerated lately, provide hope that the organizational framework for economic activity will increasingly match the substantive changes and will be able to follow them flexibly. The circle of various household plots, subsidiary and other farms in agriculture, and the proven forms of integration within cooperation among large-scale farms (joint ventures, partnerships and associations) successfully complement large-scale farming. In the food industry, the enterprises of several trusts became independent recently. And even in the sphere of trade, where the organizational framework is being retained the most rigidly, movement has begun toward the development of a more efficient marketing organization.

--Elimination of the lag in productivity per unit of acreage that exists in agriculture for all but one or two crops (wheat, and corn), in comparison with

the international lead, can create expanding export opportunities. The best average yields in Europe for potatoes and sugar beets, for example, are 50 and even 150 percent higher than in our country. The return on investment, and the indicators of feed consumption in livestock production indicate our lag in the cost competition. In the phase of food processing our drawback in efficiency in most sectors of the food industry is even greater than in the production of the agricultural raw materials.

--The existing level of our material and intellectual productive resources in food production is favorable also from the viewpoint of further progress; our agriculture has excellent machinery, imported or of domestic design; the ability to adapt advanced technology is of a high level; and hence the prospects of raising the present level of production are very promising.

--In comparison with the other branches of the national economy, the export-oriented development of agriculture and the food industry is especially favorable because of the low energy and import intensity. We cannot expect our agriculture to directly produce sources of energy as yet, but when suitable technologies become available it will be possible to utilize increasingly the "free" sources of energy (solar, wind and geothermal energy, our own wastes and by-products).

Direct consumption of imported materials barely rose in the food-producing branch in the 1970's. Thus the imported-material intensity in agriculture (6.5 percent, the proportion of imported materials within agriculture's gross output) remains the lowest among the branches of material production, and in the food industry (12 percent) it lags considerably behind the other processing industries. The indicators of the cumulative imported-material intensity--it takes into account also the consumption of imported materials in the other sectors, on agriculture's behalf, within the framework of intersectoral relations--are less favorable, but even so only the mining industry's indicator (16.9 percent, the cost of imported materials per unit of end use) is better than that of agriculture (22.7 percent). And the food industry's cumulative imported-material intensity (30.7 percent) is exceeded by the chemical industry (45.8 percent) and also by light industry (32.9 percent).

After the factors favoring the export-oriented development of food production, let us examine the "world" and see what opportunities it offers for us.

--The gap that exists between world food production and mankind's demand, and which will probably widen occasionally and in some places through the end of this century, is common knowledge. Thus the conclusion drawn from this--i.e., that there will be a constant demand for foodstuffs in world trade--is generally valid. But only a limited proportion of the actual demand is effective demand. Therefore the potential sales can be realized only partially, and thus also the price-increasing and hence production-stimulating effect of the unsatisfied demand will be absent.

In elaborating our strategy for the expansion of export, therefore, we cannot start out from the global demand; we can base this strategy only on the effective demand and on the markets to which we have access.

Our reliable and most immediate trading partners are the European CEMA countries. The low food self-sufficiency of several socialist countries can be expected to continue permanently, which for us will mean long-range export opportunities to these countries. But we can take advantage of these export opportunities only on the basis of long-term supply agreements.

The effective demand of the developing countries that export raw materials, mostly oil, represents a further favorable market, but competition in this market is the fiercest and its price fluctuations are the sharpest. Beyond the most important Near Eastern and North African zone, we will probably have to extend the radius of our marketing toward the more-distant developing countries that export raw materials and, more recently, also industrial goods (for example, Hong Kong, Venezuela, and Nigeria).

Expansion of our export to the developed capitalist countries is the most difficult. Taking advantage of the gaps in the saturated market, however, we can maintain our market presence by increasing our export of Hungarian specialties. Here again we must prepare to increase our shipments to the more distant markets (Japan and the United States).

The listed direct and indirect factors jointly provide slightly better than average conditions for food production and for maintaining our presence in the world market, but the proportion of secure markets is declining also in the case of food products.

In the future, however, our comparative advantages can be realized only by efficiently utilizing and constantly improving the given conditions, and in a suitable market situation. In addition to what has been said above, also other factors must be constantly renewed to ensure the reliable production of products of good quality. It will suffice to mention suitable varieties and breeds, plant protection, veterinary hygiene, and constant improvement of the level of farming. A constant task is the further development of advanced machinery and technology, through the expansion of the international division of labor, and their "maintenance" in accordance with the requirements of our time. All this can provide new opportunities for uncovering further reserves in production. Variations of the production level by branches of farming and farms indicate that reserves do exist. An integral part of all this, of course, is the fact that the food-producing branch is truly able to take advantage of the existing opportunities only if it obtains--through the economic regulators, and the production, procurement and marketing organizations--direct feedback regarding changes in the foreign market's demand, and if its own organization enhances quick response to changes in the market's requirements.

In addition to the arguments favoring the foreign-trade-oriented expansion of food production, however, it is possible to line up also supplementary and qualifying conditions and counterarguments. The more important ones among them are as follows:

--Frequent bad weather detracts from the advantage of our basically favorable climatic conditions. Even when the supply of materials and equipment is good, these climatic effects can cause considerable fluctuations in crop yields or quality deterioration. Frosts in late spring and early autumn damage fruits

and vegetables; prolonged rains in autumn hamper the harvesting of grapes, sugar beets and corn, and detract from the quality of the harvested crops. Frequent droughts likewise cause problems, especially in the case of field crops, and the total irrigated acreage is relatively small. All this obviously affects the development of export allocations and fulfillment of the foreign-trade targets.

Bad weather, of course, creates problems for farming also in other countries, and often specifically bad weather opens up previously inaccessible export markets for some of our products.

--Even with suitable storage and refrigeration capacities, most farm and food-industry products have only a limited shelf life, and therefore we cannot wait with their marketing until market conditions are favorable. In the case of most products, however, the necessity to market them immediately could be eliminated through the expansion of food export's infrastructure (capacities for storage, refrigeration and quick-freezing).

--Development of agriculture and the food industry, and the ensuring of the infrastructure that they need is fairly investment intensive. This is especially true when emphasis must now be placed on the infrastructure's development that has been neglected under the investment policy to date. In view of our present balance-of-payments situation, however, credit practice gives preference to investments for the production of finished products, with short payback periods.

--Aside from the inadequacy of the infrastructure, an increasingly pressing problem is the obsolescence of food production's so-called supplier industries, their capacity bottlenecks, and the complete absence of certain sectors. But economical expansion of food export cannot be imagined on the basis of imported means of production that often mean imports from capitalist countries. After being neglected for decades, our production of farm machinery that once had traditions of long standing has begun to revive only recently. Suitably selected cooperations could not only solve Hungarian agriculture's supply with machinery, but could also ensure this industrial sector's export capacities and export opportunities.

Even the industrial sectors that produce other means of production (plant protectants, rubber industry, etc.) are devoting increasing attention to domestic food production as their market, and even as a possible international reference market, only in the present, very difficult, economic situation, under the pressure of a market that is undergoing general constriction as a result of the recession.

But the production of packaging materials still shows no signs of unfolding, although it will be impossible to market the growing volume of commodities without suitable cans, bottles and other containers.

--Because of their mass, raw and processed foods and live animals generally require considerable transportation capacity and much transportation. The market's radius is further limited by the special means of transportation that certain products require (for example, refrigerated foods, flowers, and fish).

All this of course sensitively affects the attainable export profit, also the storage costs at ports, and the port loading and unloading costs in general.

However, the market occasionally belies accepted practice, the indisputable economic efficiency of the customary modes of transportation. We experienced such phenomena many times in conjunction with our Arab customers who are willing to pay very good prices if we ship live animals farther than usual, or to absorb the additional cost of shipping choice meats by air freight.

--The profitability of exporting individual products, including foods, is debatable in several respects. In the absence of a generally accepted indicator of the profitability of export, the problem of a suitable harmony between processed and unprocessed foods remains unclarified.

After this listing and comparison of the arguments, counterarguments and doubts that are by no means complete, it becomes increasingly clear that we must utilize the possibilities inherent in developing farm and food-industry production, on the basis of assessing the future world food-supply situation and state of our economy.

However, the questions in conjunction with the foreign-trade-oriented development of the food-producing branch that were once regarded as clarified have justifiably become, or could become, again debatable. And it is likewise natural that the questions differ considerably in their importance, and in how and by what method they should be answered. Today it is still hardly possible to answer some of these questions confidently or in a manner acceptable to economics. It will suffice to refer to the impossibility of answering the questions of forecasting market demand or the development of world-market prices.

On the basis of analyzing population growth, world farm production, personal incomes and food consumption, and by projecting the foreseeable changes, a fairly acceptable forecast can be obtained of the long-range trends in the world-market situation of the most important foods. To plot this "trendlike" world-market situation, of course, circumspect examination is necessary of the various factors that influence changes in market demand, individually and then in their interactions. But even so the numbers projected on the basis of forecasts comprehensively elaborated in this manner will be acceptable only in their order of magnitude and as trendlike. And if one year or another practice departs from the projected numbers, significant corrections may be made only on the basis of careful deliberation, after comparing the various factors. Concepts of production policy or their possible modification may be based only on such comprehensive surveys and deliberations. From all this it follows that the production and marketing concepts are for the long term and may not be changed from one year to the next.

It is far more difficult to prepare reliable long-range forecasts of how the world-market prices of the most important products will develop, and yet we can not dispense with such forecasts. But it is likewise obvious that not even circumspect corrections of the results obtained by thoroughly analyzing the specific prices in recent years and by employing various methods can produce reliable forecasts.

So far as the desirable export level, and hence the ability to earn foreign exchange and the profitability of a given product and, in the final outcome, of the food-producing branch are concerned, it can easily be demonstrated that their limits are determined by the general state of the economy, its position in the international division of labor, the ability of the economy's individual sectors to earn foreign exchange, and the amount of the sectors' domestic input per unit of foreign exchange earned. Also in this respect it is neither permissible nor possible to form "eternally valid" value judgments.

In essence it is likewise clear that the entire national economy, including its food-producing branch, must strive to maximize the net foreign-exchange earnings, the net domestic cost of foreign exchange, by minimizing the "real value" of the macroeconomic input per unit of foreign exchange earned. All this can reliably be investigated only comprehensively, jointly in the vertical integration of production, processing and marketing. At the same time it is necessary to investigate also the economic efficiency of export at the enterprise level, for such investigations differ in their nature as well as their content.

Assessment of the macroeconomic efficiency of export is no less contradictory in ruble-denominated than in nonruble-denominated foreign trade. For in the case of ruble-denominated foreign trade there arise the problems of not only the commercial exchange rates and system of pricing, but also the specific problems of the valuation of import. Here again it is not possible to answer unambiguously the question of the extent to which the stimulation of export to socialist countries is feasible, and even less clear is the extent to which such export is economical. The absence of unambiguous answers is detrimental particularly to the assessment of the food-producing branch. Perspicuity requires thorough analysis, a value judgment that reflects the macroeconomic efficiency of foreign trade, which can be achieved only through the joint work of theoretical and practical economists in the various sectors of the national economy.

An almost general contention, but not a proven one regarding foods, is that the export of the processed final product is more economical than that of the unprocessed raw product, and therefore the sales of processed final products in foreign markets should be expanded preferentially. This contention requires thorough investigation, not only in terms of economic efficiency but also from the viewpoint of foreign markets (separately by destinations, commodity groups and items), in order to reliably estimate the long-term market demand and to change the product structure accordingly.

The questions of the economic efficiency of exporting unprocessed products as opposed to products that have undergone various degrees of processing arise most often in conjunction with the products of vertically integrated grain-meat production.

The most important, and also the most valuable, of the feeds used in livestock production can also be exported very advantageously. Grains are not only items that are very much in demand and yield high net earnings of foreign exchange, but at present they also can be exported more economically than live animals, to both principal destinations.

By analyzing the products produced in the individual stages of vertically integrated production it can be established that often the processed products' domestic costs of earning foreign exchange are higher than when feed or live animals are exported. Thus in many instances the additional costs of processing are not recovered from the higher prices resulting in higher foreign-exchange earnings. But among the various processed foods we do find ones, usually processed to the highest degree, whose domestic costs of earning foreign exchange either match or exceed the domestic costs of earning foreign exchange when exporting food-industry raw materials or feed. The export of the meat and poultry industry's products that have undergone a high degree of processing not only earns substantially more foreign exchange, but such products also make the export of this industry economical.

Generally speaking, then, the frequently arising dilemma of whether to export feed or livestock products can be resolved, and increased foreign-exchange earnings can be combined with the most economical product structure, if in the processing of the raw materials we do not stop at live animals or products that have undergone a low degree of processing, and instead transform them into highly processed products that have a stable demand and a rising price level.

Thus when the market absorbs, and is willing to pay for, processed products of high value, extensive concepts that call for the one-sided expansion of grain export are unrealistic, because both the foreign-exchange earnings per hectare and the total foreign exchange earned would be too low. Besides earning more foreign exchange, the expansion of the export of highly processed products is more economical and results in a product structure that is more reliable also from the viewpoint of marketing, because in the case of unprocessed products we are more exposed to the necessity of marketing immediately, and hence also to the price movements in the world market.

Curtailement of the export of slaughter animals, and expansion of the export of various cuts and of products that have undergone a high degree of processing, to both principal destinations, can contribute toward the branch's earning more foreign exchange with greater economic efficiency. In addition to the general and secular trends, however, it is always necessary to take also the given market and production situations into consideration to devise the optimal export structure at the given time. All this presupposes, however, that we ensure conditions for the more flexible operation of the enterprises, because quick adjustment to market demand can be imagined only in the microeconomic sphere. To this end we must create suitable conditions in the macroeconomic sphere, by means of the economic regulators and instruments of public administration.

The domestic costs per ruble of export likewise do not indicate that it is unambiguously more advantageous to export processed products, but also the ruble-denominated market reimburses the additional costs incorporated in the prices of products that have undergone the highest degree of processing.

Comparative analysis of the economic efficiency of exporting unprocessed and processed products leads us to the conclusion that in dollar-denominated export we must strive for the optimal combination of unprocessed and highly processed products, taking into consideration the market situation at any given time, the domestic production of raw materials, and the domestic processing capacity.

Thus there emerge in this market two truly convertible commodity groups: unprocessed products (including also meat cuts), and highly processed items. In general this is due to the lower tariff rates for unprocessed products or to their easier market access on the one hand, and to the generally more favorable market prices of the so-called specialty products. Sales of other products are strongly dependent on the nature of the given market, its specific conditions, and so on.

To all this we might add that, if the effective demand develops favorably, there always has been and foreseeably always will be a market for unprocessed products because they can be processed into many things, and this can offset the importing countries' raw-material production and processing-capacity problems or their contradictions. But when the effective demand is rising and the economy recovering, the high-priced processed products are increasingly in demand in most markets. Along with all this we must strive to broaden the market and the customer base also in the case of so-called specialty products because a single market involves high risk. On the whole, in most market situations within nonruble-denominated export, the domestic cost of the foreign exchange earned is very unfavorable for mass products that have undergone a low or medium degree of processing, because here the competition from domestic producers or other exporters is the strongest (canned fruits and vegetables, dressed poultry, barreled wine, split beef and pork carcasses). Within this circle of products we must be prepared for especially stiff price competition and ever-larger price concessions in the case of those items whose production is rising in the developing countries. In many instances the developing countries' natural conditions are more favorable (for example, to grow wine grapes), or they (e.g., Brazil) have their own protein-feed base for the expansion of their poultry production. Anyhow, in their newly built processing plants the developing countries are able to produce their products more efficiently, and at a lower wage level than in our country.

In ruble-denominated export, at the present prices and price ratios, it would generally be more advantageous to increase the proportion of unprocessed products, although signs of change are evident also here: a few of the highly processed products already are selling well also in this market, and the demand for them is expected to grow rapidly in the future. But from our point of view it is a drawback that the socialist countries will probably expect us to supply also in the future large quantities of mass products with a medium degree of processing, because their domestic costs of earning foreign exchange are very unfavorable also in this market, with the exception of a few preserved foods that are much in demand (pickled cucumbers, and mixed pickles). But the valuation of these products cannot be separated from the prices of ruble-denominated import. In other words, the economic efficiency of exporting the mentioned mass foods is realized in our favorable import prices that are below the world market's price level. So long as this type of indirect economic efficiency can be proven and we are exporting under long-term agreements, far more debatable will be the transmission of this macroeconomic interest and economic efficiency to the enterprise level, rather than the need for such export.



## Assessment of the Future Foreign-Market Situation of Foods, Proposed Direction of Development

Considering the general growth of the world population and effective demand, and the foreseeable production and trade policies of the individual countries, we can expect the world demand for farm and food-industry products to increase during the next 15 to 20 years.

Mostly under the influence of economic-policy factors, considerable differences can be expected between country groups and between individual countries in the rate and intensity of the demand's growth. World trade in farm products will grow at a faster rate within the individual groups of countries than with third countries. Concentration of the world market in food will intensify further; in other words, the market actions of the big exporters and big buyers will determine the conditions of the market as a whole.

The Soviet Union's demand for imported food will grow, while no significant increase can be expected in the food imports of the other CEMA countries. The food demand of the countries rich in oil or other raw materials will most certainly grow, and their own farm production will not be able to supply this growing demand, not even if they concentrate significant resources to develop their agriculture. Only slow growth is probable in the food import of the European capitalist countries, of the European Common Market countries in particular, and of the United States, Canada and Japan. Thus demand in the future will be focused in the Soviet Union, the oil-producing countries of the Middle East and countries rich in other raw materials, and the countries of the Far East. All this will increase the demand for the grain, slaughter animals, and meat that they import.

The import demand of the North American and Japanese markets is expected to increase for meat and meat products (partially meat product seasoned with Hungarian spices), paprika, quality wines and other alcoholic beverages, and for specialty foods in general.

Frequently recurring and protracted recessions, together with increasing unemployment and a slower rise of personal incomes, will foreseeably retard the changes in the structure of food consumption, perhaps even through the end of this millenium. Thus there will be a slowdown in the rise of the degree of processing, of the convenience that processed foods offer, and also in the need to frequently innovate the food products on the market, even in the developed countries.

Significant changes in the import policies of the most important capitalist countries, modification of EEC common agricultural policy's production-stimulating nature, and the opening of the EEC to shipments from third countries are not very likely. At the high level of EEC self-sufficiency, access for third countries to the EEC will remain limited, and the trade barriers might remain in place.

Foreseeably there will be elements of uncertainty in the world economy also during the next 15 to 20 years because a peaceful equilibrium phase in the development of the capitalist world cannot be expected. Frequent changes in

supply and demand, and increasing price fluctuations will be constant characteristics of the world food market. Although we can expect continuing shortages of the most important foods, particularly of grain, in the world market, and continuing hunger in the world, the absence of purchasing power will continue to exclude this demand from the effective demand. As a trend, therefore, we can expect only a relatively slow rise of the world-market prices of foods, at a rate that will barely exceed the rate of the rising costs and the rate of inflation.

The price disparity between foods and the industry-supplied production assets used in the food-producing sectors will not cease, because the effective demand in relation to supply is greater in the case of production assets than of foods. The efforts at self-sufficiency that emerged in the 1970's in the countries exporting petroleum or other raw materials, and also in some of the developing countries that are becoming industrialized, further reinforce this trend.

At the same time the overall market position of our agricultural raw materials and foods will not be unfavorable from our point of view even in the future. However, utilization of the marketing opportunities will demand a further increase of the competitiveness of our food export. Thus flexible variation of the marketing of our products in their different forms of processing (as raw materials, semifinished products, and finished products processed in different ways), shipment to markets that offer the best prices, and production and foreign-trade activity that closely monitors the changes in price ratios will be of outstanding importance in the future.

A prerequisite for this is product quality and competitiveness that permit purposeful choice among the potential markets. Realization of this prerequisite cannot be imagined without the proper functioning of a unified incentive system for the production, processing and marketing enterprises, including also the perfection of the trade organization in foreign markets and the linking of the foreign-trade incentive.

It will be expedient to gradually include also domestic trade with as much say as possible in the circle that makes decisions regarding a flexible choice among markets. In many instances it might be warranted to substitute merchandise of similar utility value for merchandise that cannot be exported advantageously if this substitution is favorable from the consumer's viewpoint, or perhaps to sell domestically the export products (for example, eggs or canned foods) that can be exported only less favorably. In the future, then, substitutions and other profit-oriented transactions must be given wider room in domestic supply as well as in the foreign trade of the branch.

Amidst market fluctuations in different directions that are difficult to predict, the orienting role of economic efficiency will increase. In assessing economic efficiency, however, it will be necessary to concentrate primarily on the constant trends, respectively on the development of a production structure and export-import structure based on the comprehensive marketing of related products.

We will have to retain also in the future the wide assortment of farm and food-industry export, the minor items in addition to the products that are exported

in large volumes and earn much foreign exchange. Also in this respect the household plots and subsidiary farms favorably complement the large-scale farms that produce more efficiently the products that are exported in large volumes. The household plots and subsidiary farms will retain their role in the export of certain fruits, medical herbs, honey and small animals. Only a relatively extensive export list of the food-producing branch, development of our domestic production base, and our increased marketing flexibility can ensure full utilization of the opportunities to export to the markets of the developed capitalist countries.

The increase of farm and food-industry production and the expansion of foreign trade in food will remain a decisive factor of national economic development and economic stability also during the next two decades. This is another reason why we must use more efficiently and expand the productive forces of the food-producing branch. In harmony with our farm and food-industry production, it is necessary to develop our storage, refrigeration and transportation capacities, providing thereby conditions more favorable for marketing the products.

Fast adjustment to the market's changing demand requires not only a better infrastructure than at present, but also capacities and technologies that permit alternative processing in the individual sectors of the food industry. In any case, the development concepts must conform to the relatively permanent trends, even if the capacities built on this basis occasionally remain unutilized. But an essential element of flexible adjustment to the requirements is also that in the case of stable demand the production base must be able to supply evenly and without fluctuations the quantity of production necessary for export. Without this, even our reliable markets might become unreliable. The demand for food is rising in general, but there are commodities and commodity subgroups where the so-called constant demand means only a few years, and it is impossible to adjust to this at the pace of capital construction that is customary in the Hungarian food industry. Thus the world passes us by, while in the market for basic foodstuffs one is rarely able to earn extra profit.

Speculative and other factors not related to production will unavoidably continue to influence the capitalist world-market prices of foods. Although the effective demand strongly influences the prices of individual foods, because of these other factors we often will continue to encounter "manipulated" prices in the world market. Usually this will mean depressed prices and, rarely, high prices.

Therefore it will be advisable to expect also in the future that the price level of farm products will develop in export competition between the developing countries whose labor costs are low, and the developing capitalist countries whose export is often subsidized by the state. In this context we may disregard the repeatedly encountered higher monopoly prices of some products also because they apply only to a limited circle of food products. For the above reasons, and occasionally because of the rich exporting countries' political considerations, the world-market prices and price ratios of foods will continue to differ from the international value relations and comparative advantages.

Even though the capitalist food markets are fickle and frequently turn inward, we cannot leave unutilized the marketing opportunities that peaceful economic

competition provides. Not only the state of our economy, but also our more effective participation in the international division of labor makes this imperative.

In their mutual trade the CEMA countries are pricing foods at present on the basis of the world-market prices, although they are trying to screen out the cyclic fluctuations.

In the future it will be necessary to employ pricing methods that take into consideration the production conditions in the CEMA countries, the importance of foods in supply and the food shortage of CEMA as a whole, and--on the principle of mutual advantages--better meet the requirements of intensifying the socialist international division of labor and socialist integration. In this respect it will be worthwhile to note the prices and price ratios of the farm and food-industry products that the EEC countries trade among themselves, and to employ with circumspection the useful features of their methods of pricing.

But the transferable ruble prices that are developed in this manner and provide more incentive for mutual trade in farm products will influence favorably changes in the foreign trade in the less "hard" foods that are produced in sufficient volume in CEMA as a whole, and the specialization of their production. In the case of grain, meat, oilseeds and vegetable oils, however, the new prices will mean mostly that the transferable ruble's function might increase in the various food-for-materials arrangements between CEMA countries.

Simultaneously it should be emphasized that for a long time it will not yet be possible to assess independently the economic efficiency of individual commodities or commodity groups in ruble-denominated export. This economic efficiency can be fully ensured only for the entire turnover of mutual trade.

So far as our farm and food-industry import is concerned, here it is advisable to start out from the principle that practically any food can be obtained in the world market if the political climate is favorable, and there remains only the question of what the price will be. Starting out from the possibilities of the national economy and of its food-producing branch in particular, it seems economically warranted also for the long term to expand socialist cooperation and to strive to obtain increasingly from the developing countries, from the provenances that are important from the viewpoint of trade policy, those foods in which domestic production is unable to supply the demand economically.

As a result of all this, agriculture and the food industry will remain a significant foreign-exchange-earning branch of the national economy; the volume of foreign exchange that it earns will be increasing, but the proportion of its net foreign-exchange earnings will be declining. For the prospects are slim, at least during the 1980's, that the branch might be able to dispense with the volume of foreign exchange it earns at a domestic cost that is above the average for the national economy, or that in dollar-denominated export the same amount of foreign exchange might be earned by other branches of the national economy, at lower domestic cost. Thus the only thing that can come into consideration is that dollar-denominated or other export with no net foreign-exchange earnings should cease, and that the structure of export to both principal destinations should improve further.

## EGALITARIAN INCOME REDISTRIBUTION TERMED MAIN THREAT TO REFORM

Warsaw PRZEGLAD TECHNICZNY in Polish No 52, 25 Dec 83 pp 12-13

[Article by Leszek Pawlicki]

[Text] Despite broad coverage in the press, the problem of describing and assessing the conditions in which the new economic model is being introduced--and the dangers facing it--is still an open one. Given the continually low efficiency of production and steady increase in the costs of living, it seems imperative that barriers to enterprise autonomy, self-management and self-financing be identified and eliminated. It is because of these barriers that the desired and justified systemic solutions bring about poor economic and social results, often contravening the original assumptions.

A glance at the dangers to reform is offered by the returns of a July 1983 questionnaire<sup>1)</sup> taken by the Institute for Organization, Management and Personnel Promotion (IOZDK) among executives from selected enterprises. The major problem which the respondents pointed to is the persisting tendency towards a restoration of the old system of management. On a four-degree scale (high, average, mild, nonexistent), the impact of this danger was assigned the high or average degree by 90 percent of the 98 persons queried. Appraised negatively were such elements as the unchanged central structures (90 percent) and the "old style" of management enforced by these structures (89 percent). The respondents also fingered the discretionary powers and paternalism in relations between the authorities and enterprises (83 percent), and the absence of a concept of national economic planning (91 percent). Market imbalance, listed by 98 percent of those questioned, continues to be a major threat to reform. Connected with both the sphere of enterprise functioning and that of their regulation, it remains an important factor limiting the autonomy of economic organizations in the supply area. Coming as a direct result of the deep market disequilibrium is the rationing of resources (mentioned by 90 percent of those questioned).

The high degree of monopolization, delaying a quick and efficient introduction of the new economic system, is no smaller danger--mentioned by 89 percent of those surveyed. The adverse consequences of monopolization have often been described in economic literature<sup>2)</sup> but no practical methods of solving the problem have been worked out so far.

The excessive taxation of enterprises is mentioned by 91 percent of the respondents. This danger is rooted in both the systemic arrangements now

in force and the high budgetary deficit. Capital depreciation (90 percent) and negligence of R+D promotion (87 percent) are mentioned as the most immediate consequences of the existing tax system.

All this shows that the main dangers to reform--as seen by economic practitioners--have to do with production supplies and motivation. But theoretical reflection would reveal a still deeper factor behind the discussed processes--the existing mechanism of incomes redistribution. This is a factor which prevented systemic reforms also in the past.

Under the said mechanism, the levels of incomes left at the disposal of both the enterprises and the workforce do not depend on the effects of their work. Its instruments, unchanged throughout the whole post-war period, are the egalitarian principles of enterprise-budget settlements and the wage system. The structure of incomes--duplicated by the year through the said mechanism and now coupled with the new principles of enterprise functioning--not only hampers the introduction of new economic and legal arrangements but, what is still more dangerous, undermines confidence in reform.

The tendencies towards centralization of management, the market imbalance, and the monopolization of the economy are all indirect effects of the existing system of incomes redistribution. This is best reflected in the sphere of enterprise self-financing, when enterprise operations are viewed from the angle of the origin of outlays and distribution of effects. It is generally believed that a full implementation of the principles of enterprise autonomy and self-financing would produce tangible improvement in efficiency. This of course is true, but only in respect to an economy with such objective constraints as limits to market saturation and bankruptcy as a final consequence of erroneous economic decisions. No such constraints appear in the socialist economy--which is not only an ideological assumption but also a reflection of objective reality. In such economy, the quantity of goods produced--or, to use J. Kornai's terminology, the "shortage" of commodities and other factors of production--constitutes a constant and objective constraint.<sup>3)</sup>

The fact that enterprises and consumers operate in conditions of shortage determines the nature of their activities. First of all, the time horizon for economic decisions is substantially shortened. The amount and structure of production remain as a decision-making variable, but its optimization is not aimed at steady improvement in the enterprise's financial position. Instead, the strategy of economic organizations is targeted primarily at survival (guarantee of continuity of production), which in conditions of shortages translates into acquisition of sufficient quantities of raw and intermediate materials. This leads directly to a vicious circle in which excessive material inventories deepen the existing shortage still further. The decision-making process--rational from the point of view of individual organizations--inevitably generates crises in the national scale. Therefore, the adoption of autonomy as the underlying principle of the functioning of the economy should be accompanied by a simultaneous removal of factors responsible for the existence of shortages. This should not be taken as

a suggestion to shelf reform until the said removal is completed. Instead, the arrangements adopted as part of reform should provide for mechanisms eliminating the adverse consequences of shortages.

But working out efficient mechanisms is no easy matter. It requires that further systemic transformations be consistently carried through. What affects our economy is not a static imbalance of the market, coming as a result of a one-time rise in demand or supply cutback, but rather a dynamic imbalance, with all its consequences. Therefore, as shown by last year's experience, all attempts to restore equilibrium with the help of prices alone will fail to produce results.

The establishment of equilibrium prices, balancing the existing demand with supply, will produce short-lived effects, because--which may seem paradoxical--demand in the socialist economy constitutes a variable which increases without limits. For this reason, measures aimed at supply growth cannot be efficient. Under the current systemic arrangements (such as PFAZ contributions, and principles of pricing and profit taxation), which discourage efficiency improvement, virtually every case of supply growth is accompanied by increase in production costs. Besides, with the exception of shoddy production, increase in output encounters high level of demand, especially for producer goods. A search for new factors stimulating supply growth, and thus restoring equilibrium, might be prolonged ad infinitum. Therefore, the provision of mechanisms which would curb demand, especially for production supplies and capital equipment, is a necessary condition for success of reform. And I stress the word mechanism, since the problem can hardly be solved by administrative measures such as "tight financing principles" (new taxes, cuts in credits and in subsidies). Such measures can only magnify the adverse processes, including the depreciation of capital.

But the provision of a mechanism regulating increase in demand is a tall order. What is needed in the first place is the determination of the relationships between economic growth and the existing principles of national income distribution. This sort of danger was also pointed out by those responding to the above mentioned questionnaire. The factor mentioned most often among the barriers to practical implementation of new systemic arrangements was social pressure for incomes equality (85 percent of those questioned). This mistaken notion of egalitarianism must be countered with a principle that income generated by the enterprise should remain at the disposal of its employees.

If the more profitable enterprises (I leave out here the causes of such level of profitability) are left with substantial income surpluses, they will be forced either to cut prices for their products or to store value and, in future, to limit production. The additional introduction of a system linking wage-fund increase to profit growth should lead to gradual abandonment of the most labor- and material-consuming production. As for the low-profit economic organizations, they will either raise prices for their products (the limit would be provided by equilibrium price) or be forced to seek organizational and technological reserves in order to cut production costs.

Otherwise, they will face the necessity of drawing expensive credits. In effect, both groups will substantially limit their demand for production supplies--the former for technological reasons and the latter because of the scarcity of funds.

Profit taxation with corporate income tax should provide a form of funds redistribution only as far as it is necessary for the financing of state budget. In setting the level of income tax, care should be taken not to discourage the tax-payers from increasing their incomes. The division of enterprise profits into "warranted" and "unwarranted"--although inspired by the correct principle of social justice--generates disequilibrium and intensifies inflationary processes.

When channelled to the non-productive sphere, the funds flowing from enterprises to the state budget have the primary effect of generating additional flow of demand. For the most part, they are spent on pay rises and increase in employment in that sphere. It is true that unwarranted profits and other tax flows can be transferred back to the sphere of production in the form of various kinds of subsidies, but the resulting threat to reform seems to equal that posed by market disequilibrium. The budgetary redistribution of incomes among enterprises separates the flow of real incomes of enterprises from the effects of their operations. This has the effect of destroying the positive correlation between financial accumulation and investment in individual enterprises, industries and sectors.<sup>4)</sup>

In a situation where demand for production supplies and capital equipment is separated from incomes generated by the producers, the decisions on raw-material purchases or launching of investment projects are also separated from the existing prices. The producer perceives the price for a given product as no major barrier to its purchase. Therefore, if the enterprises are to be forced to take into account the level and pattern of prices (I leave out the assessment of pricing procedures), it seems imperative that interest be charged on all resources assigned to economic organizations. The interest rate should be tied to enterprise profitability--higher rate for low-profit enterprises--and it should reflect accessibility of credited commodities and the current rate of inflation. Such redistribution of incomes among economic organizations must be carried out through the banking system. Another adverse aspect of budgetary redistribution of enterprise incomes, as shown by J. Kornai,<sup>5)</sup> is that the state becomes a universal insurance agency making up for any loss. The budgetary redistribution of incomes is served by such seemingly unrelated arrangement as the rationing of raw materials and capital equipment. The Center, by taking away "unwarranted profits" of the wealthiest enterprises and subsidizing the remaining ones, levels the rate of net profit throughout the economy. As a result, the enterprises have no motivation to embark on risky ventures (producing vast savings), because they can pass on to the Center all costs connected with changes in the external determinants of economic processes.

In planning its production tasks, the enterprise assumes that the Center will either supply it with the required quantities of material resources,



within the enterprise's means (which would explain the necessity of maintaining the artificially low official prices), or provide it with the required flow of money whenever the enterprise incomes prove insufficient for normal operations. Therefore, an increase in official prices does not seem feasible without a departure from the budgetary form of redistributing enterprise incomes. Otherwise, a classical spiral of production costs being passed on from the enterprise to the Center would evolve, meaning a continuous disequilibrium--only at a higher level. The enterprises would make new cost calculations, and increase the amount of profit (as a percentage of costs) and prices of their products, thus forcing the Center to provide new subsidies and to raise taxes.

As a final result of such price operation, the Center would continue to provide production supplies at a level geared to the enterprises' financial resources--which, in conditions of unbalanced market, can be solved only by means of rationing (unless the enterprises start going bankrupt for lack of funds to purchase raw materials; but this form of curtailing demand seems to be too costly from the social point of view).

One attempt at solving the production-supply problem without curbing enterprise demand is reflected in the distribution of material resources through enterprise associations and in the development of co-production ties. But the efficiency of this arrangement is much reduced by the high degree of monopolization of our economy. In a situation where the suppliers cannot be freely chosen and where their obligations cannot be exacted, the shipments are often spotty and the quality of commodities is low.

A major threat to reform, pointed out by 70 percent of those questioned, is the absence of an efficient system of motivation. This concerns both the enterprises and the employees. The lack of motivation to take efficiency-oriented measures can be explained as an indirect consequence of the overlapping of the profit-redistribution mechanism, the market imbalance, and the existing system of prices. The mechanism under which a large proportion of enterprise profits is taken by the state budget,<sup>6)</sup> coupled with the high level of product subsidies [dotacje przedmiotowe],<sup>7)</sup> leads to a situation where the amount of profit for distribution is similar in all enterprises. In addition, the present system of prices and the unbalanced market make it possible to offset increase in production costs with price rises. Under these circumstances, the positive financial result is scored even by enterprises with declining trends in output and labor productivity. All this seems to justify an opinion that profit does not play its motivational role in a correct way, which was supposed to provide a major pillar of reform.

The consequences of the absence of the motivational role of profit can also be found in the tendencies towards restoration of the old system of management. A profit unrelated to the economic performance of the enterprise cannot be used as a reliable performance yardstick, and as such is not suited to be an element of indirect system of national economic management. Hence the attempts to influence enterprises with various kinds of administrative measures (including recall of management) and economic pressures (e.g.,

rationing of material resources). The linking of pay rises to the amount of net production (as reflected in the new principles of PFAZ computation) also belongs to this group of measures.

The separation of distributed profit from the effects of enterprise operations also destroys the attempts at introducing a motivational system of wages. The correlation between individual worker pay and enterprise financial result will not suffice to provide a strong motivation impulse.

As shown by last year's experience, an increase in profit-financed pay components does not necessarily lead to a major increase in labor productivity. This is because the amount of profit for distribution stands at similar levels in both an enterprise with high labor productivity and one with growing production costs and declining output and productivity. The economy as a whole is thus marked by egalitarian increase in profit for distribution and by increase in wages making up for price rises. This provides a major stimulus to inflation, while not influencing a physical increase in national income.

In this article, I confined myself to pinpointing some of the problems which affect those elements of reform I consider the most important. If the reform is not to come badly unstuck, each of these problems requires a more detailed analysis revealing the nature and magnitude of possible threats to reform.

#### FOOTNOTES

1. One of a series of periodic studies conducted as a part of the "System for Evaluating the Implementation of the Economic Reform" as devised by the IOZiDK per the request of the Office of the Government Commissioner for Economic Reform.
2. Vide: J. Goscinski -- "Monopolies and Oligopolies" in ZARZADZANIE, issue no 6, 1983.
3. J. Kornai -- "The Economics of Scarcity," Nort-Holland, Amsterdam, 1980.
4. Vide: G. Kersten -- "J. Kornai's Ideas on the Economics of Scarcity" in MATERIALY ZAGRANICZNE IOZiDK, Warsaw 1983.
5. Ibid.
6. During 1982 enterprises paid out around 60 percent of their earnings in the form of corporate income taxes, while the same ratio for industry came to 66 percent. Vide: L. Pawlicki -- "Incentives and Sanctions for Enterprises" in KONTROLA PANSTWOWA, issue no 3, 1983.
7. During the first quarter of 1981 the tax liability on enterprise retained earnings owed to the national budget came to a total of 272 billion zlotys, while the surcharge tax bill came to 193 billion zlotys. Vide: M.M. -- "Credit and Financial Management" in ZARZADZANIE, issue no 9, 1983.

DRAFT 1984 PLAN CRITIQUED BY PROFESSIONAL SOCIETY

Warsaw POLITYKA in Polish No 53, 31 Dec 83 p 5

[Interview with Professor Andrzej K. Kozminski, head of Management Methods Faculty of Warsaw University, deputy chairman of the Society for the Study of Organization and Management, by Jerzy Zukowski]

[Text] [Question] The Group for Economic Reform you are heading at the Society for Organization and Management [TNOiK] has submitted to the central political and economic authorities and to some social organizations its own assessment of the draft 1984 Central Annual Plan [CAP], Poland's chief economic targets and lines of reform implementation in 1984. Do the proposals and suggestions in this report reflect TNOiK's special area of interest?

[Answer] This is a comprehensive document embracing many problems. In a way, it's a warning forecast and a set of various counter-proposals. We based ourselves on the Polish economy's performance in 1982 and in the first three quarters this year.

Unquestionably, after the extraordinarily difficult year 1981, the economy partly recovered in 1982 and in 1983, which was reflected both in a relative rise in industrial output rates and in a moderate agricultural output increase. This of course affected Poland's foreign trade and was itself conditioned by the latter.

As we see it, the economy is again hitting several extremely high barriers, which may jeopardize the entire system's viability in the future.

First, there is the manpower barrier. What are called labor resources have been declining and so it is hard to hope for increasing production by engaging new labor. Nor is the situation any brighter if you hope to increase production by raising productivity. Imported machinery is growing old without being replaced, so some industries are facing a prospect of complete capital depreciation. On the other hand, while hourly productivity rates went up in 1983, this rise was not compensated by real wage increases. Meanwhile, the 1984 CAP provides for no radical real wage increases or for possibilities to increase consumer goods supplies significantly.

Technology is the second huge barrier. During the past few years, microchip technologies have been conquering the world, new products and processes have been appearing, while Poland cannot join in this process. Needless to say, this affects Poland's possibilities for marketing highly-processed goods in zone II [convertible-currency] countries.

On top of this technological gap, Poland is facing a prospect of complete wear-and-tear of machinery, which may either bring some industries to a complete halt or seriously hamper their operation. This applies in particular to industries integrated into continuous production lines of high technological level such as the machine, the engineering, or the chemical industries.

Foreign trade is the third barrier. This primarily implies Poland's decreasing ability to import producer materials. Unfortunately, the [Comecon] socialist economies are not mutually complementary, while the Polish economy was made strongly dependent on Western supplies during the 1970's. This is a fact, and it cannot be easily changed in one, two or even five years without incurring enormous losses and extra inputs.

The fourth and final great barrier is the situation in agriculture. The declining meat output is particularly painful. This drop, in my view, has been estimated too optimistically in the 1984 draft CAP. It stems from a shortage of imported concentrated high-protein feed, which in turn makes animal production extremely expensive because farmers have to resort to home-produced bulk feeds.

As we see it, the authorities should try to find possibilities of curbing grain imports by increasing grain purchases from Polish producers, say by linking them up to sales of fertilizer; the hard-currency assets saved in this way might then be used for high-protein feed import financing.

[Question] So, we have all but a complete set of barriers effectively preventing consumption from increasing and the market from normalizing. What do TNOiK experts recommend to break this impasse?

[Answer] At any rate, not price increases alone. These are now proposed [by the Government] but I regard this as a highly controversial move, primarily because these increases will not increase supply.

[Question] In relative terms, I take it, supply will increase, because reduced consumption possibilities will reduce demand, won't it?

[Answer] This expectation is based on feeble premises. A great many people will forsake their intended purchases of consumer durables, which, incidentally, are in very short supply anyway, and instead will spend their money on foodstuffs.

Besides, as prices will go up, keeping nominal wage growth under tight Government control will probably be extremely difficult to achieve, while individual producers of goods and services will also raise their prices, thus winding up the inflationary spiral still more.

In view of this, in our report we recommend the very simple idea that production increase should be aspired to at any price, and that it should be the overriding goal of Poland's overall economic policy.

[Question] This recommendation reminds me of the saying that it's better to be healthy and rich than sick and poor. I wonder how you can hope to get output rise if not a single socio-economic area is free of serious crisis-induced difficulties?

[Answer] Translated into the language of economic policy, the call for increasing output at any price of course means that nothing must be done which may hamper the bid to steadily increase production in any way. Now there are many ways toward this, because, like other countries, Poland is simultaneously pursuing a number of different goals in its socio-economic policy, each of which is competitive to output growth. Social services, welfare-state provisions, ownership relations, economic organization models are just a few examples of such competitive areas.

Or, take the problem of investment policy. At present, it is being implemented in a common-sense approach of at least not wasting the capital which is engaged in production already. From the financier's point of view, to make this tied-up capital yield its full desired effect, twice as much extra money would have to be put into investment projects; under present conditions of finance accumulation, this would practically mean prolonging the ventures under way indefinitely.

So, to forestall this we call for a long-term policy for complete depreciation of fixed assets in some industries.

This policy should be devised on the basis of factors such as energy consumption rates, material intensity rates (especially of imported production materials), or by putting the thus untied investment resources to other uses by selling them off to domestic or foreign buyers or by utilizing them otherwise.

Possibilities for pushing the bid for output increases at any price are in fact countless.

Take the first sector that comes to mind, namely building. It now relies on extremely wasteful technologies. I am sure that in the present very dramatic situation the authorities can make the very dramatic decision of bringing the building sector's operations to a standstill and allocating the resources and manpower thus untied to the implementation of new building technologies. In other words, resources and people should be used so as to turn out many more buildings with the same quantity of materials, and also to increase production of many building materials in short supply, because such shortages prevent many dwellings from being turned over to users. Also, the authorities should consider if it is perhaps sensible to reallocate funds originally earmarked for new collieries for implementing technologies that ensure considerable energy or material savings.

Or, take the problem of small-scale production. This is another area of unutilized reserves. As is known, small-scale businesses claim enormous shares of economies in many advanced countries in the world. All over the world, large-scale industries are overgrown with small firms rendering various ancillary services to them, producing various minor components, subassemblies, and aggressively trying to conquer export markets. Such small businesses compete with each other, but can easily switch from one production line to another if need be. During slump periods, they then act as shock absorbers for more vital elements of the entire economic set-up.

In Poland, this sector is practically without any significance. If it has any significance at all, then only that of a sheep which is shorn of its fleece, often even before the fleece has grown thick enough.

In pushing the idea of output increase at any price we intend not only to create economic possibilities but also, frankly speaking, a compulsion to create productive jobs for anyone capable of taking them with a view to preserving one's living standards. I believe this move, which if often used under critical conditions, should be treated clearly as a priority task. Anyone capable of, and willing to, take extra productive jobs should be granted proper conditions, which implies that all tax, administrative or other restrictions should be lifted almost completely.

Finally, Poland should also take advantage of its labor trump card, namely its highly-qualified and relatively cheap labor force.

[Question] I realize that you haven't exhausted all the arguments in favor of restructuring Poland's economy which are propounded in the TNOiK document. Yet, to use your own terms, I perceive two barriers to achieving even the goals you have mentioned. Suppose the moves you recommend are indeed made. Then the state's welfare function would be seriously curbed. This, in turn, would not only run counter the system's ideological tenets but would call forth great social turmoil. The other barrier I have in mind is the shortage of material resources. How do you propose to give the liberated economic initiative--the way you interpret it--free access to abundant [sic] supplies of energy, production materials, machines or equipment?

[Answer] No country, a socialist state in particular, can remain indifferent to society's impoverishment, especially if this involves poorest social groups.

Yet you must realize that the state no longer can hope to fulfill its welfare function if it continues to apply the means it is using now. I believe the state should not finance private consumption via welfare wages or price subsidies. This hampers economic efficiency, because wages and prices are basic parameters for adequate economic decision-making, so that burdening wages and prices with a "welfare hump" is incompatible with common sense.

What is unquestionable is that the state must introduce income indexing and thereby subsidize consumption in lowest-income families up to a level Poland can now afford. All others, though, must earn their own living. Unfortunately this is not what happens now.

As for your objection that production materials are too scarce, let me point out that, whether under socialism or capitalism, defeating a crisis implies elimination of inefficient users of production factors and passing these assets to other, more efficiently working people. Specifically, it is necessary to liquidate a huge number of enterprises mismanaging their labor, capital, energy resources and to entrust them to people who can squeeze out incomparably greater effects from these resources.

[Question] But [liquidating] enterprises means [sacking] people, doesn't it?

[Answer] In the situation which would ensue every job seeker would be engaged instantly. This is no problem at all. Similarly, I do believe there are ways to devise policies flexible enough for immediately utilizing operational but previously unutilized capacities by inefficient holders.

In conclusion, let me mention the problem of cooperation with foreign partners, which is widely discussed in connection with Poland's foreign debt. Poland is heavily indebted as a state, but state-owned enterprises are not in debt. I believe their cooperation with foreign partners in joint ventures of joint-stock companies guaranteeing a Polish partner's interests may open access for us to raw materials, components, equipment and technologies which Poland lacks.

Newly advanced countries in particular might prove interesting partners for Polish firms, as we point out in our report.

Besides, some capital resources in Poland are now being hoarded, or else mobilized for profiteering. If these resources can be moved for production purposes, then, under appropriate tax provisions and flexible tax policies, they can prove quite a strong driving force for national development.

POLITYKA: Thank you for the interview.

CSO: 2600/568

UNREALISTIC 1984 PLAN OFFICIALS UNDERMINING REFORM RAPPED IN CATHOLIC WEEKLY

Warsaw LAD in Polish No 1, 1-8 Jan 84 p 6

[Article by Henryk Borucinski]

[Text] With 3 years' experience with the functioning of the economy in conditions of crisis, the authors of draft Central Annual Plan (CAP) for 1984 could be expected to have now an easier task than a year ago and to avoid basing the plan targets on guesswork. But a perusal of some chapters of the plan makes one feel that its authors failed to draw conclusions from an analysis of the implementation of CAP for 1983. They failed to notice the processes that surfaced in the economy in the latter half of last year, and one can doubt whether their approach to the international situation--which will have much greater, and negative, impact upon our economy this year--is realistic enough.

Coming to the fore at present is the progressing stagnation in manufacturing industries, which results in shrinking opportunities for the export of more processed goods and in attempts at artificial balancing of the market (if the commodities are in short supply, let's raise the prices). All this may lead to aversion to work "which gives nothing," and in the foreign trade area to lower capacity to import, which after all is crucial for a normal functioning of our industry.

The international constraints may, but do not have to, manifest themselves in the depletion of reserves for higher trade with socialist countries and the deepening of the chasm in Poland's economic relations with the advanced capitalist countries (...) [censor interference in the LAD text]. We will still have no access to credits and sophisticated technology, and the debt servicing burden will be greater than last year.

What do we know about our economy at the beginning of 1984? We know that the production of mining industries is approaching its upper limits.

Not only do we not have reserves for output growth, but the common sense and concern for the future generations necessitate a slow-down in production, especially of coal. We may manage to increase coal exports to Western markets but this would merely offset the falling prices.



We also know that the engineering industry, which should be a driving force in the country's recovery from crisis, has virtually exhausted all reserves stemming from work organization, frugal material resources management, and production-supply imports from socialist countries. In this situation, the plan target of 5 percent increase in industrial output in 1984 seems to reflect a "morale-boosting" planning.

It can be noted that the small rise in production recorded in 1983 was possible, among other factors, thanks to work on Saturdays-off. This factor will not be available in 1984. Last year, many pensioners went back to work. Now, after weighing in three elements--health, wages, and the purchasing power of the zloty--they are retiring again. Few people are willing to work at the expense of health and leisure time, only to earn the money which can be set aside but which can buy nothing.

So the optimistic plan assumptions will rather fail to materialize, but we can cherish no illusions as to the negative aspects of plan design--troubles with employment, further difficulties with production supplies, and wear and tear of plant and equipment. Because of the last of these elements there may be troubles with maintaining the level of imports from capitalist countries at the 1983 level. But the designers of the plan are optimistic, assuming courageously a 16-percent increase in our exports to Western markets.

The sum to be repaid to our creditors will be higher this year than it was in 1983. This will place an added burden on the economy, and it should not be forgotten that there is a strong connection between Poland's standing as a solid debtor and our access to new credits and even cash purchase of some commodities.

I cannot escape an impression, however, that the "import difficulties" are being exaggerated for the purpose of domestic propaganda. It is true we import much less from the West as compared with 1981. But this drop affects primarily the purchases of food and farm produce, and capital equipment--and only in a small degree the purchases of industrial supplies. But the hard currency expenditures on this import failed to produce the expected multiplier effect in exports. Still worse, they induced a very poor increase in domestic production. Does that mean that the reform has not made its way to industry, or perhaps it is a reform not worthy of the name?

Despite the reduction of investment projects, they still account for a large portion of the CAP. And a closer look will reveal lack of consistency in the curtailing of capital spending. Its 1980 level of 1,551 billion zlotys dropped (at constant prices) to 1,204 billion zlotys in 1981 and 1,058 billion zlotys in 1982--but still was 31.4 percent above the 1970 figure. The investment policy reflects a compromise between the advocates and opponents of the continuation of halted projects, and the plan provides for the worst possible option, placing emphasis on central projects. These projects are the most expensive, they take the longest time to complete, and consequently they petrify the wrong structure of production.

Talking about structures, why is it that nothing has been done since the beginning of the severe crisis to promote necessary restructuring? There has been talk for years about the need of boosting consumer and export production, but the CAP for 1984 does not reveal even a slightest trace of restructuring. And the time is running out.

From the point of view of social policy, the most important question will probably be the relationships between incomes, prices and the supply of consumer goods and services. The plan virtually calls for only a token increase in real wages. Any setback in other sections of the plan will lead to their decline. This would mean a deterioration in the public mood, which hardly stimulates higher productivity of labor. Some journalists have discovered that smooth market can be achieved by means of "fixing" the price-to-incomes pattern, meaning an increase in prices. In a situation where many goods are in drastically short supply, such "advice" borders on economic hocus-pocus. It is impermissible that society be offered a vision of "equilibrium for the well-off" before other ways of recovering from the crisis are tried. The plan provides for a high level of inflationary gap. As I see it, the chance for improved public mood lies in measures aimed at sectoral equilibria, e.g., in household equipment, footwear, some foodstuffs, etc.

How about the conclusions? The major one is that there can be no alternative to economic reform. But it has many adversaries within the "center," which means that the reform must eat away at this "center" this year.

As for the banks, they must firmly protect the public interest, exposing the bankrupts and preventing the enterprise from paying wages for nothing? The loss-making enterprises, irrespective of their status, should be dissolved. All ownership sectors of the economy should be treated on an equal footing when it comes to access to raw materials, building plots, credits and disused plant and equipment, including the discontinued projects. Favorable conditions should be provided for foreign capital investment in Poland. They should be competitive in respect to those offered by, for example, Hungary or Bulgaria.

An analysis should be made of the potential of domestic construction/assembly enterprises and the country's capacity to import sophisticated machinery, and the central investment program should be scaled down accordingly. In compliance with the principle of autonomy, the enterprises should be permitted to invest their own money as they please, and the best of them should be offered credit facilities for the purpose of expansion and modernization. This would mean that the basic prescription for healthy economic structures--to the effect that investing is a matter for those who manage to earn--gets the upper hand.

A realistic approach is needed to our relations with the West. I would like to err, but it seems to me that even the closest contacts with socialist countries will not suffice to fill the gap that emerged after Poland's dropping out of the world market.

We are faced with a danger of receding to a third-rate status in technology. Who will take responsibility for this? In the meantime, silence has set in around the drafted bill on joint-stock companies with foreign capital share. The silence is understandable. Who will be willing to invest in Poland after the lesson taught to the [foreign-owned] Polonian companies?

It is high time to stop pitting society against "the rich." The profiteers should be identified by the militia--not the press and television. I propose that the journalists writing about the riches of private craftsmen, vegetable growers or owners of Polonian companies take interest in the owners of villas and "dachas" in many localities throughout the Mazurian Lake District, the Bieszczady range, the Silesian Beskid Mountains, etc. The subject would then disappear from the media, I believe. The media would do better if they started popularizing vigorous entrepreneurs; and the latent human energy should be released by a policy of tax relief, rather than its increase. It is in the public interest that the number of millionaires, deriving their profits from production, should increase. The employment shortage should be alleviated by transferring manpower from the inefficient and liquidated enterprises to the most profitable ones. The reform has so far failed to solve the problem of "dead souls" in enterprises and of wages for just reporting to work. There are still enterprises where production dropped to half the 1980 level although employment remained unchanged. We still hear demagogical arguments that there is no production because workers have gone over to Polonian enterprises--but there they are three times as efficient. A full liberalization should be considered for regulations on work by pensioners. If they produce more than they earn, then their activities will bring about the much needed deflationary effects. Another problem is the setting in motion of the so-called secondary economy, which would help to increase society's productivity and take advantage of private capitals.

All these measures will prove efficient only if the authorities manage to convince society that their serious approach to economic reform, the private sector, and the facilities for private capital investment is not some kind of NEP [new economic policy, pursued in the Soviet Union in the early 1920s], the history of which is well known to most adults in this country.

The largest part of the economy is, and will be, the socialized sector. Much will depend on whether the reform will manage to get it moving in 1984.

CSO: 2600/586

COLD STORAGE SHORTAGE TIES UP FISHING FLEET

Walvis Bay NAMIB TIMES in English 10 Jan 84 p 4

[Text] Cold storage and retail supply problems are hampering the Polish fishing industry. Poland is one of some 20 foreign countries presently depleting the demersal fish resource off the South West Africa coast.

The London-based magazine Fishing News International in their latest issue says that this crisis has come about at a time of rising catches. During September there were about 45 000 metric tons of fish in cold stores in the main Polish fishing ports and about 35 000 tons in the holds of vessels that had brought or were bringing catches from the ocean grounds.

The pace of unloading at Polish harbours is exceptionally slow and one industry observer commented that the fishing vessels are in effect being turned into floating cold stores.

Large quantities of fish have been put into cold stores located just inland but with rising catches, poor catch-handling and low level of investment in cold store construction, the Polish industry is in considerable difficulty.

The problems are extended by the inefficient transport and distribution system, which means that most inland shops of the central fishing organisations have nothing to sell.

Meanwhile, it looks as if the present year will be a record one for the industry, despite United States restrictions and the increasing age of the Polish fleet. Catches should exceed 800 000 tons, according to industry estimates. With the existing cold stores crammed to the roofs, the scene is thus set for a replay of the situation four years ago when a substantial part of the Polish fleet was turned into a floating cold store instead of catching fish.

Fishing News International goes on to state that few retail shops in the south, west and east of Poland have any fish of any kind to sell to the queuing housewives, despite the steadily rising fish stock mountain.

## BRIEFS

'HUTA KATOWICE' EXPANSION PLANS--On 20 January Manfred Gorywoda, secretary of the PZPR Central Committee, vice premier, and chairman of the Planning Commission of the Council of Ministers, paid a working visit to the "Huta Katowice" Metallurgical Combine. While there he received a briefing on the progress of plans for the resumption of work on the construction of new plant facilities. Later on a meeting was held with the plant's political-management aktiv, during which the participants discussed production-related and economic problems and also questions pertaining to the plant's future expansion. M. Gorywoda also paid a visit to his home party organization at the Compact Automobile Factory in Tychy, where he met with members of the factory committee executive council and representatives of the plant's management staff. [Text] [Warsaw TRYBUNA LUDU in Polish 21-22 Jan 84 p 2]

CSO: 2600/585

STATUS OF JOINT VENTURES WITH FOREIGN COUNTRIES

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 5 Jan 84 p 2

[Article by Tomislav Kapetanac: "Small Investments, Small Results"]

[Text] The Law on Joint Investments With Foreign Persons is already lagging far behind the times and the needs. The need to amend it is clear to everyone. Recently there has been much talk about this. Two federal social councils have just recently supported the view of SIV [Federal Executive Council] concerning the directions of the amendments and supplements to the Law on Investment of Capital of Foreign Persons in Domestic Organizations of Associated Labor. Joint ventures are very important to further modernization of our economy and to firmer inclusion in the international division of labor. It has also been stated at a meeting of the Presidium of the Council of the Federation of Yugoslav Trade Unions that joint ventures are not only the easiest road to the international division of labor, but also that they involve a much smaller risk than the taking of foreign credits.

The Croatian Republic Council for the Social System and for Economic Development and Economic Policy feels that the material offered by the respective federal bodies are a good basis for further discussion. However, they continue to contain solutions which conflict with the stabilization efforts and which are not a stimulus for expansion of that cooperation.

Argument has been answered with argument for a long time, and the discussions are still going on after more than a year in the search for answers to the question of the extent to which the foreign partners can make decisions on allocations of resources from the income of OOUR's [basic organization of associated labor] with which they pool their money. In Belisce at the industry for wood processing and paper production, where the business of joint ventures with foreigners is very highly developed, there are no problems whatsoever in the operation of the joint business body.

Foreign Capital Displaced

In spite of a number of good results in business operation based on joint ventures with foreign trading partners (in Croatia the best results have also been achieved by "Rade Koncar" of Zagreb, "Vuteks" of Vukovar, "OKI" [Organic Chemical Industry] of Zagreb, "Borovo" and "Torpedo" of Rijeka), the anticipated results have not been achieved as a whole.

In 125 OUR's [organizations of associated labor] with joint ventures the 1981 business year ended with a small loss. It is an encouraging datum that these 125 OUR's achieved an export figure of 33.4 billion dinars in the year mentioned, while imports were 37.8 billion dinars. If we omit investments in petroleum exploration in 1982 by "INA-Naftaplin" offshore in the Adriatic and of foreign trading partners from several countries, which are something specific, the joint ventures have nevertheless continued to be minimal. We might note that the total investments of foreigners amount to only about 20 percent. Viewed in general, the conclusion is that the investments of foreign partners are almost negligible relative to the amount of capital invested in domestic OUR's. This is disturbing, but it is also one more piece of evidence that transactions are stagnant in this area or falling off, and there are quite a few reasons for this. Here are figures on the distribution and amounts of capital invested by foreigners in our country:

<u>Region</u>	<u>Number of Contracts</u>	<u>Percentage</u>
SFRY	171	
Croatia	33	19.29
Serbia as a whole	59	34.50
Serbia proper	39	66.10
Vojvodina	18	30.50
Kosovo	2	3.38
Slovenia	40	23.39
Bosnia-Hercegovina	27	15.79
Montenegro	5	2.92
Macedonia	7	4.09

At present there are 171 contracts recorded throughout the country (not counting investments in petroleum exploration in the Adriatic under the auspices of "INA [Petroleum Industry]-Zagreb"), with a total value of 58.5 billion dinars. Of that sum the foreign partners account for about 15 billion dinars, or 25.6 percent, which is relatively little, and these investments are oriented mostly into petroleum exploration (Montenegro), production of heavy chemicals, power machines, transportation equipment, ferrous metallurgy and petroleum refining, the wood products industry, and the paper industry.

#### Express Reservations

Foreigners have expressly stated their reservations about the law, which diminishes their prospects for realizing the desired profit, and thereby their motivation to invest capital. They particularly attack Article 19 of that law, which states that level of profit which a foreign partner can withdraw from the joint venture. The provision seems to have been calculated to drive foreign trading partners away from cooperation. This article of the law practically destroys the efforts of foreign partners to increase production, since the better work they do, the less they are paid for that work. The law also contains quite a few unclarified terms and statements which need to be spelled out. The Law on Associated Labor states that profit and loss are the business of the OUR, while the law on joint ventures requires that profit and loss be dealt with by contract in advance.

Even the draft offered for amendments and supplements to the Law on Investments of the Capital of Foreign Persons, so it was stated in the Croatian Republic Council for the Social System and for Economic Development and Economic Policy, still contains quite a few incomprehensible terms and contradictions in referring to the identity of the Yugoslav partner, vagueness concerning distribution of the income realized, repayment of the capital invested, and so on.

It is precisely because of these dilemmas and gaps, on which quite a bit of systematic work still remains to be done, that the job is going slowly and too slowly. Yet time is passing irrecoverably.

When some 15 years ago we opened up the door to foreign investments and when we have the good and bad experiences of this work with foreign investors, why is it that a professional and fully authoritative analysis is not being made of this business, rather than merely a statistical summary of the figures, without any very thorough assessments, which is what we have now. Our economy is not so attractive for any sizable inflow of foreign investments, as indicated by the fact that the number of contracts concerning these forms of cooperation has been declining. This situation argues for a more rapid reassessment of certain of our arrangements and for an attempt to be made to create better conditions for stronger orientation toward joint ventures, provided they do not threaten the basic principles of our system and safeguard the integrity of social ownership.

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## BRIEFS

WINTER CROP STATUS--In most grain-growing areas the weather has been favorable for winter crops, although farmers still fear a frost on fields not protected by snow which could damage grains. Rain and melting snow has watered crops which had poorly developed in the fall because of drought in certain areas. On most plowed fields grain crops are in the cluster stage and show a distinct green color. Crops planted latest have developed one or two leaves. Winter crops were planted on about 1.8 million hectares last fall, or 130,000 hectares (or 7 percent) less than in the previous year. Wheat traditionally occupies the largest area, namely 1.45 million hectares. Bread grain has been planted on 152,000 hectares (or 10 percent) less than in the previous year. Private farmers have planted 1.06 million hectares in wheat, or 108,000 hectares less than the previous fall. Farmers are worried most at present about being supplied with diesel fuel. Fertilizing of winter crops is now underway. [Excerpt] [Belgrade BORBA in Serbo-Croatian 20 Jan 84 p 1]

LIVESTOCK, MEAT EXPORT PLANS--In 1984 plans are to export \$366.7 million worth of livestock and livestock products to the convertible-currency market; this is 18 percent more than in 1983. It is also planned to export \$80 million worth, or 23 percent more, to the clearing-account area. This production and export program includes also cheese, milk, and honey. This year 156,750 tons of different kinds of meat will be exported, or 26 percent more than last year. The largest buyers are Italy (42 percent), Greece (11 percent), and the United States (10 percent). [Excerpt] [Belgrade BORBA in Serbo-Croatian 11 Jan 84 p 12]

TRADE WITH LIBYA--It is estimated that the value of exports to Libya in 1983 will amount to about \$195 million and that the value of exports in 1984 will be 18 percent more, or \$230 million. Up to now most business deals have been made for exports of clothing and other textile products. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 20 Jan 84 p 4]

PLANS FOR SMALL BUSINESSES--This year it is planned to establish at least one small-business contract organization in each opstina, thereby enabling the opening up of nearly 400 new small businesses in the service sector as well as in small-series production, in which there would be work for about 8,000 people. But to do this, it is necessary to expand republic and provincial laws on establishing such businesses. It should be made

possible for enterprises to form small-business contract organizations also outside the republic or province in which they are registered. Legal regulations should also provide for the possibility of factories "going into" technology in developing contract organizations. Because of inadequate laws, contract organizations have developed only slowly in the last 3 years. Since the October 1980 Social Agreement on Small Business to the end of last year, 142 contract organizations have been formed. The "stumbling block" is probably the regulation according to which private artisans would conclude contracts on forming "mini-enterprises" with representatives of the sociopolitical community [opstina, republic, province] and the economic chamber. But the regulations do not provide for the possibility of enterprises in industry, trade, or any other field to be also the founders of the contract organizations if they invest funds in it. It is necessary that laws make it possible for "surplus" technology or business space in organizations of associated labor to be made available for small business production. Regulations are also a serious obstacle to forming "private" branches of a plant in other areas. For instance, factories in Slovenia and Croatia would be interested in forming contract organizations, as branches, in less developed areas. This would solve the problem of having scores of "mini-enterprises" in the same or similar production in one republic, while in another there is not even one small-business contract organization. [Excerpt] [Belgrade BORBA in Serbo-Croatian 19 Jan 84 p 4]

INCREASED RAIL TRANSPORT--In 1983 railroads transported about 82.5 million tons of goods, or about 0.25 million tons more than in 1982. Grain and [grain-] milled products accounted for the largest increase, namely 41 percent. The railroads recorded a 19-percent increase in export goods shipped last year and a nearly 2-percent increase in imported goods, but transit goods using our rail lines declined by 4.5 percent. Rail transport results would have been even better if there had been adequate numbers of freight cars. [Excerpt] [Belgrade BORBA in Serbo-Croatian 16 Jan 84 p 1]

MORE PRIVATE FOOD STORES--Fruit, vegetables, milk and meat should in future be sold in more private shops. The initiative taken by the Permanent Conference of Towns and Opstinas of Yugoslavia has been shown to be of benefit, and private stores have "passed the test." The effects are many-sided: citizens are supplied faster and easier, and new jobs are also opened up. According to the data of the Permanent Conference there are 1,450 food and beverage stores in the private sector. Most are in Serbia proper (379); Bosnia-Hercegovina has 109, Montenegro 3, Croatia 180, Macedonia 337, Slovenia 122, Vojvodina 59, and Kosovo 267. The Permanent Conference believes that the number of private sellers should increase, and regulations and decisions of opstinas where there are no such private shops should be examined with a view toward establishing them. [Excerpt] [Belgrade BORBA in Serbo-Croatian 17 Jan 84 p 12]